

MONTANA

Legislative Budget Analysis 2011 Biennium

Volume 7—Agency Budgets

Education (Section E)
Long-Range Planning (Section F)



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Legislative
Fiscal Division



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Legislative Budget Analysis

2011 Biennium



Volume 7 – Agency Budgets

Presented to the Sixty-First Legislature

Submitted by the
Legislative Fiscal Division

Legislative Finance Committee

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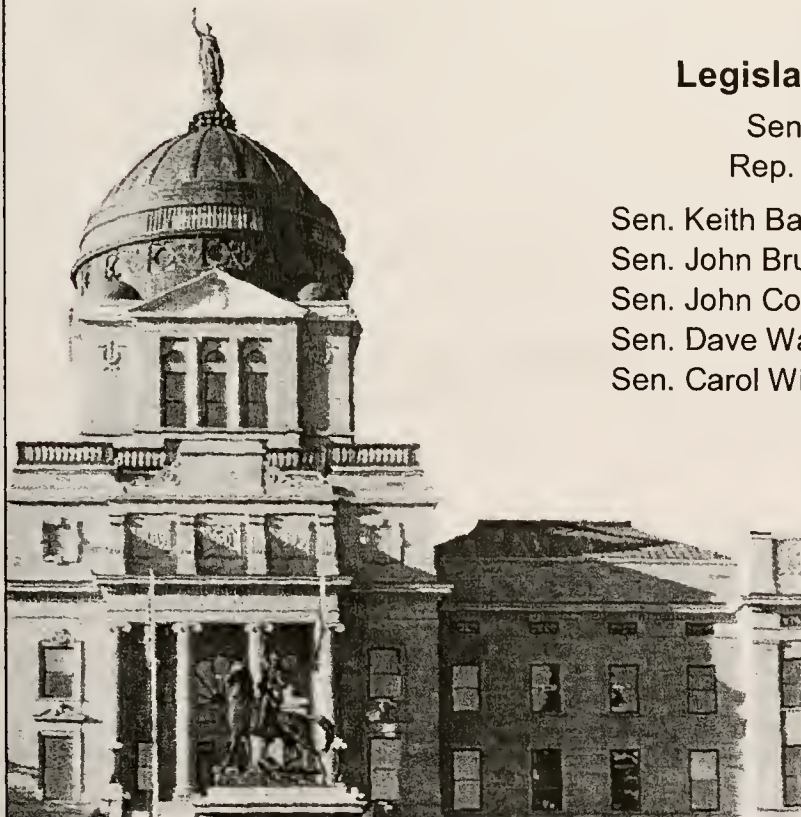
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AGENCY SUBCOMMITTEE GROUPINGS

The following sections (A through F) provide a detailed explanation and analysis of the executive budget for each agency and agency program that contains appropriations in HB 2. The agencies are grouped by functional categories that mirror agency groups by appropriations subcommittee. The groups are summarized below. Programs funded with proprietary funds are not funded in HB 2, but an explanation and analysis of these programs are included in each agency narrative for the purpose of legislative rate-setting.

GENERAL GOVERNMENT

(Section A)

- Legislative Branch
- Consumer Counsel
- Governor's Office
- Secretary of State
- Commissioner of Political Practices
- State Auditor
- Revenue
- Administration
- Montana Consensus Council
- Commerce
- Labor and Industry
- Military Affairs

EDUCATION (Section E)

- Office of Public Instruction
- Board of Public Education
- School for the Deaf and Blind
- Montana Arts Council
- State Library Commission
- Montana Historical Society
- Commissioner of Higher Education
- Community Colleges
- University Units and Colleges of Technology
- Agricultural Experiment Station
- Montana Extension Service
- Forestry and Conservation Experiment Station
- Bureau of Mines & Geology
- Fire Services Training School

HEALTH AND HUMAN SERVICES

(Section B)

- Public Health and Human Services

NATURAL RESOURCES AND

TRANSPORTATION (Section C)

- Fish, Wildlife, and Parks
- Environmental Quality
- Transportation
- Livestock
- Natural Resources and Conservation
- Agriculture

LONG-RANGE PLANNING (Section F)

- Long-Range Building Program
- State Building Energy Conservation
- Long-Range Information Technology Program
- Treasure State Endowment Program
- Treasure State Endowment Regional Water System
- Renewable Resource Grant & Loan Program
- Reclamation & Development Grant Program
- Cultural and Aesthetic Grant Program
- Quality School Facilities Program

JUDICIAL BRANCH, LAW ENFORCEMENT,

AND JUSTICE (Section D)

- Judicial Branch
- Crime Control Division
- Justice
- Public Service Regulation
- Office of Public Defender
- Corrections

Where can you find each section in the *Legislative Budget Analysis 2011 Biennium*, Volumes 3-7?

- Volume 3 contains Section A
- Volume 4 contains Section B
- Volume 5 contains Section C
- Volume 6 contains Section D
- Volume 7 contains Sections E & F

AGENCY BUDGET ANALYSIS (ROAD MAP)

The purpose of the “Agency Budget Analysis” (LFD Volumes 3 through 7) is to provide a resource for legislators and members of the public to understand and allow for action on state agency budgets. It is designed to be a working document for use by the joint appropriations subcommittees. It does this by:

- Detailing components of the executive budget
- Raising budget and other issues for legislative consideration

This section provides a roadmap for using the Agency Budget Analysis volumes by discussing each component.

BUDGET TIERS

The section is constructed based on the statutory requirement that the budget be presented in three tiers:

1. Base budget;
2. Present law budget; and
3. New proposals.

(For a further explanation of these tiers and how they are derived, see page 1 of the “Reference” section, or the publication entitled “Understanding State Finances and the Budgeting Process”, available through the Legislative Fiscal Division and on the Internet at http://leg.mt.gov/content/publications/fiscal/leg_reference/Understanding_State_Finances.pdf). The analysis is presented in a manner to allow the legislature to see and act on each present law adjustment and new proposal made to the base budget to derive the executive budget, by summarizing and raising issues with those adjustments.

LEGISLATIVE FISCAL DIVISION (LFD) ISSUES AND COMMENTS

While LFD staff has written the entire analysis document, parts are meant strictly to explain what is in the executive budget in a way that does not justify or advocate the executive position.

The heart of the analysis is in two areas:

1. The LFD issues and comments provided on the proposed budget. If the LFD analyst has raised an issue with anything contained in the executive budget or with any other aspect of agency operations and expenditures, it is included as an “LFD Issue”. The analyst may also provide additional information to aid the legislature in its decision making under the heading “LFD Comment”. All issues and comments are clearly identified in the narrative; and
2. Other issues and options. In order to provide the legislature with alternatives to the executive budget, as well as budget-making flexibility, LFD staff has provided other issues and options for consideration by the legislature.

COMPONENTS OF THE AGENCY BUDGET ANALYSIS

For all multiple program agencies, the narrative is divided into two parts:

1. The agency narrative; and
2. The program narrative.

Agency Narrative

The agency narrative provides an overview of the executive budget and other issues and options for that agency. Since the legislature appropriates at the program level, only issues raised in the analysis with an agency-wide or multiple-program impact are discussed at this level. All other discussion occurs within the relevant program narratives.

Each agency narrative has the following components.

1. The **Main Table** shows the adjusted actual expenditures and appropriations of the current biennium and the executive request for the upcoming biennium by year. The reader can use this table to get a general idea of the size and funding of the agency, and compare the upcoming biennium totals to the current biennium.
2. **Agency Description** is a brief description of the agency, along with its mission statement.
3. **Agency Highlights** is a table showing the principal factors influencing the budget and any related discussion. It is designed to aid the reader in gaining an understanding of the overall agency budget or significant budget areas.
4. **Agency Discussion** provides additional information or overarching discussion. In addition, if the previous legislature funded any new initiatives of an agency-wide nature, a brief update is provided. For each agency, any agency-wide goals and objectives pertinent to the legislature's discussion, as well as a recap of any agency-wide goals and objectives monitored by the Legislative Finance Committee during the interim, are listed and discussed as appropriate.
5. **Personal Services** provides the legislature, as part of a new initiative, with pertinent data on personal services that would allow the legislature to identify and address those factors impacting personal services expenditures and related policy issues. Factors addressed in this section include market salaries and obstacles to achievement of market goals. The program sections address other, program specific questions.
6. **Funding** is a table and related discussion that shows the total biennium funding, by program and fund type, proposed by the Governor.
7. **Statutory Appropriation** is a table showing any statutory appropriations received by the agency, in order to provide a more complete picture of total appropriations.
8. **Budget Summary by Category** summarizes the executive budget by base budget, statewide present law adjustment, other present law adjustments, and new proposals proposed by the Governor for each year of the biennium.
9. If included by the executive, a discussion of the following two types of proposals is included, each with LFD comments as appropriate:
 - o **Supplemental Appropriations** discusses supplemental appropriations recommended by the Governor for FY 2007, or supplemental appropriations approved in FY 2006
 - o **Reorganizations** details any major reorganization that took place in the 2007 biennium or is proposed by the executive for the 2009 biennium
10. **Language** includes any agency-wide language proposed by the executive.
11. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the agency. This section is designed to alert the legislature to other legislation not included in HB 2 that could have a bearing on the agency budget and operation.
12. **Agency Issues** is a discussion by the LFD analyst of any identified agency-wide or multi-program issues. Otherwise, all discussions of adjustments and attendant issues are included in the relevant program narratives.
13. **Elected Officials New Proposals** lists new proposals advocated by agencies headed by either an elected official or the Board of Regents but not included in the executive budget.

Note: The main and budget summary tables, the agency description, mission, and the highlights and funding tables are included in each agency narrative. However, the other components are "optional", indicating they are included only if circumstances warrant.

Program Narrative

Narratives detailing each agency program follow the agency narrative. The program narrative contains the following components.

1. The **Main Table** contains the same information as the agency main table for each program of the department, including adjusted actual expenditures and appropriations of the current biennium and the executive request for the upcoming biennium, by year.
2. **Program Description** is a short description of the program and its functions.
3. **Program Highlights** is a table showing the principal factors influencing the budget and any related discussion.
4. **Program Narrative** details any points of overall program discussion by the LFD analyst. If the previous legislature funded any new initiatives, a brief update is provided.
5. **Funding** details program funding as proposed by the executive, and any issues raised by the LFD analyst.
6. **Program Reorganization** details any program reorganizations that took place in the 2005 biennium or that are proposed by the executive for the 2009 biennium.
7. **Budget Summary by Category** summarizes the executive budget by base budget, statewide present law adjustment, other present law adjustments, and new proposals proposed by the Governor for each year of the biennium.
8. The **Executive Present Law Adjustments Table** delineates the major present law adjustments included by the executive, by fiscal year and funding source. The table is divided into two sections:
 - Statewide present law adjustments, which include most personal services adjustments, the executive's vacancy savings recommendation, and adjustments due to fixed costs and inflation
 - Other present law adjustments proposed by the executive
9. **Executive Present Law Adjustments** discusses each adjustment proposed by the executive in more detail. The section begins with a discussion that addresses personal services expenditures and policy issues specific to the program, including market rate, vacancies, how the legislatively applied vacancy savings was met, pay changes made outside of any legislative pay changes, and the number of employees eligible for full retirement and the related unfunded liability. This discussion is followed by a description of each adjustment proposed by the Governor. The LFD analyst writes the adjustment descriptions based upon justifications submitted by the executive. It should be noted that it is the responsibility of the LFD analyst to explain a requested change, but not to advocate for or attempt to justify that request. If the LFD analyst has raised an issue with the adjustment, it is presented when the adjustment is discussed.
10. The **New Proposals Table** shows each new proposal requested by the executive, by fiscal year and funding source.
11. **New Proposals** discusses each new proposal in more detail. If the LFD analyst has raised an issue with the proposal it is presented with that new proposal. As with present law adjustments, the LFD has written these explanations based upon submissions by the executive. For certain new proposals (and significant present law adjustments), a discussion submitted by the agency (with editing for clarity and brevity by LFD staff) is included that discusses goals, performance criteria, milestones and timetables, and other information designed to provide the legislature with information with which to evaluate the proposal. LFD staff provides any comments or issues with the submission.
12. **Language** recreates any program specific language proposed by the executive, with LFD comments as appropriate.

13. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the program.
14. **Other Issues** contains any issues identified by the LFD analyst unrelated to a specific present law adjustment or new proposal.

The legislature does not appropriate enterprise funds (which fund operations that provide goods or services to the public on a user charge basis) or internal services funds (which fund operations that provide goods and services to other entities of state government on a cost-reimbursement basis). However, the executive must review enterprise funds and the legislature approves all internal service rates. If the program includes a function supported by either an enterprise fund or an internal service fund, a separate section within the relevant program provides the following:

1. A **Fund Balance Table** shows actual and projected rates, revenues, expenditures, and fund balance through FY 2009; and
2. **Narrative** contains a discussion of the function, a description and explanation of the rate requested, and a discussion of any significant present law adjustments or new proposals impacting the requested rate. The LFD analyst addresses any issues and comments as appropriate.

STATEWIDE PRESENT LAW ADJUSTMENTS

“Statewide Present Law Adjustments” are those adjustments applied to each agency based upon either: 1) factors beyond the individual agency control; or 2) other underlying factors. Because of the global application of these factors and the need for consistency among agencies, these adjustments are included in the “statewide” section of the present law table to alert subcommittees and other decision makers that, if adjustments are made to these costs, adjustments should be made to the underlying factors upon which the adjustments are based. The Legislative Finance Committee (LFC) will make a recommendation on these and other adjustments to appropriations leadership.

Personal Services

Personal services costs are derived by taking a “snapshot” of state employee positions and the factors determining compensation rates at a particular point in time. A number of underlying factors will make the upcoming biennium personal services costs different from actual base year costs. The most important are:

Current Biennium Pay Plan and Other Benefits

The 2007 legislature adopted a pay plan that, among other features, provided two increases.

1. An overall increase in pay of 3.0 percent in each year of the biennium and a further 0.6 percent discretionary fund increase, both beginning on October 1 of each year.
2. An increase in insurance rates of \$33 per month beginning on January 1, 2008 and a further increase of \$36 per month on January 1, 2009 (the increases for the Montana University System begin on July 1 of each fiscal year).

Since the pay plan was increased in FY 2009 and not fully implemented in the base year, adjustments were made to each employee’s compensation to reflect actual agency costs in the 2011 biennium. In addition, any changes made to benefits that an agency must pay directly to or in support of an employee, such as pension, or unemployment and workers’ compensation insurance, are automatically reflected in the present law personal services.

Vacancy Savings

Vacancy savings is a reduction in personal services costs that results when positions are not filled for the entire year. Vacancy savings will fluctuate within agencies and programs from year to year. In order to provide the legislature with the opportunity to make all policy decisions regarding vacancy savings, each position is funded as if the position were filled for the entire year, regardless of any vacancy savings that may have occurred in FY 2008.

Termination Pay

Costs incurred by agencies due to termination of employment, such as accrued sick or annual leave, are not included in present law.

Other Adjustments to Pay

All other changes to salaries authorized during the biennium through the "snapshot" date (July of FY 2008) are included in present law.

Any adjustments to personal services from sources within the control of the executive, such as overtime, new or deleted positions, or proposed transfers, should not be included in the statewide adjustments. If the LFD analyst has identified any of the adjustments in the statewide adjustment line, they are discussed as an LFD issue or comment.

Vacancy Savings

As of this writing, the executive has proposed a 4 percent vacancy savings rate on all salaries and benefits, including insurance, for most positions. Exempted positions include university system faculty, and those in agencies with fewer than 20 full-time equivalent positions, the Judicial Branch, the highway patrol, game wardens, and the Legislative Branch.

Inflation/Deflation

The executive budget has inflated or deflated certain operating expenses. Each agency budget is automatically adjusted to add inflation to or subtract deflation from the relevant expenditure items. Therefore, changes to inflation/deflation amounts in the agencies can only be made through an adjustment to the actual expenditure against which the inflation/deflation is applied, rather than to the inflation/deflation factor, itself.

Note: A complete listing of expenditure categories inflated or deflated in the executive budget has been included in the "Reference" section.

Fixed Costs

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as information technology, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate. Any changes to these allocations must be made through a change to the service agency budget, or to the allocation method used by the service agency. The General Government and Transportation Subcommittee will review the fixed costs proposals.

Note: A complete listing of all fixed costs is included in the "Reference" section.

EDUCATION

Section E

JOINT SUBCOMMITTEE OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

-----Agencies-----

Office of Public Instruction
Board of Public Education
School for the Deaf and Blind
Montana Arts Council
State Library Commission
Montana Historical Society

Montana University System (MUS)
Commissioner of Higher Education
Community Colleges
University Units & Colleges of Technology
Agricultural Experiment Station
Montana Extension Service
Forestry & Conservation Experiment Station
Bureau of Mines & Geology
Fire Services Training School

-----Committee Members-----

House

Representative Dan Villa (Chair)
Representative Bill Glaser
Representative Roy Hollandsworth
Representative Cheryl Steenson

Senate

Senator Debby Barrett (Vice Chair)
Senator Bob Hawks
Senator Jim Peterson

-----Fiscal Division Staff-----

Jim Standaert
Pam Joehler
Kris Wilkinson

Proposed (Unified) Budget

The following table summarizes the executive proposed table by agency and funding source.

Proposed Unified Budget	Base FY 2008	Adjusted FY 2009	Exec. Budget FY 2010	Exec. Budget FY 2011	Biennium FY 08-09	Biennium FY 10-11	Biennium \$ Change	Biennium % Change
Full Time Equivalent (FTE)	452.66	452.66	463.41	463.41	452.66	463.41	10.75	2.4%
3501 Office Of Public Instruction	783,028,298	838,195,249	834,274,195	856,075,384	1,621,223,547	1,690,349,579	69,126,032	4.3%
5101 Board Of Public Education	376,056	409,875	411,759	413,889	785,931	825,648	39,717	5.1%
5102 Commissioner Of Higher Education	229,346,474	286,882,779	267,001,429	272,990,153	516,229,253	539,991,582	23,762,329	4.6%
5113 School For The Deaf & Blind	5,810,616	6,341,056	6,508,492	6,477,587	12,151,672	12,986,079	834,407	6.9%
5114 Montana Arts Council	1,249,830	1,297,160	1,334,659	1,283,748	2,546,990	2,618,407	71,417	2.8%
5115 Montana State Library	4,358,497	5,137,842	5,289,382	4,652,690	9,496,339	9,942,072	445,733	4.7%
5117 Montana Historical Society	4,168,165	4,596,057	4,603,395	4,570,600	8,764,222	9,173,995	409,773	4.7%
Total Proposed Budget by Agency	\$1,028,337,936	\$1,142,860,018	\$1,119,423,311	\$1,146,464,051	\$2,171,197,954	\$2,265,887,362	\$94,689,408	4.4%
01000 General Fund	823,924,198	864,195,002	885,605,993	906,024,444	1,688,119,200	1,791,630,437	103,511,237	6.1%
02000 State/other Special Rev. Funds	21,033,801	20,046,993	22,005,283	22,511,471	41,080,794	44,516,754	3,435,960	8.4%
03000 Federal Spec. Rev. Funds	182,485,000	257,399,188	210,729,600	216,862,708	439,884,188	427,592,308	(12,291,880)	-2.8%
06000 Proprietary Funds	894,937	1,218,835	1,082,435	1,065,428	2,113,772	2,147,863	34,091	1.6%
Total Proposed Funding	\$1,028,337,936	\$1,142,860,018	\$1,119,423,311	\$1,146,464,051	\$2,171,197,954	\$2,265,887,362	\$94,689,408	4.4%

Agency Description

The fourteen-member Board of Education (BOE), under authority of Article X, Section 9 of the Montana Constitution, is composed of the Board of Regents of Higher Education (BOR) and the Board of Public Education (BOPE). It is responsible for long-range planning, and for coordinating and evaluating policies and programs for the state's educational systems. The Board of Education is constitutionally required to submit a unified budget request for the state's education system.

Agency Discussion

By statute, the Board of Education is to review and unify the budget requests of the following educational entities:

- Commissioner of Higher Education
- Board of Public Education
- Office of Public Instruction
- Montana School for the Deaf and Blind
- Montana Library Commission
- Montana Arts Council
- Montana Historical Society

The unified budget request is then submitted to the Office of Budget and Program Planning by the state agencies for inclusion in the Governor's executive budget.

The drafters of the constitution included the unified budget submittal so that the funding allocations to the various components of the educational system were "threshed out together, so that when the legislature was asked for an amount, there would have been some agreement reached between all phases of education." A unified budget request allows the BOE to determine the total amount of the biennial budget request for the educational system and the amount of the total which they would recommend allocating to each portion of the budget. BOE can prioritize the long range policies for the educational system within the budget. In periods of scarce resources, a unified budget request allows the BOE to determine which programs will be reduced, increased, or postponed until additional resources are available. It also allows BOE to review the various programs and requests for additional funding in the education system as a whole and further its related policies by reflecting them in the budgets requested by the agencies.

The BOE did not provide a unified budget proposal request to the 2011 legislature. The proposed (unified) budget shows the state agencies budgets which would have been included in the unified budget had BOE submitted one to the executive.

**LFD
ISSUE**

The Board of Education (BOE) did not review or submit a 2011 biennial unified budget request.

As stated above, statute requires the Board of Education to submit a unified budget request for Montana's educational system to the executive for inclusion in the executive's proposed budget. According to the Office of Budget and Program Planning budget timelines, the due date for state agencies to submit their budgets under current law and their new budget proposals was September 1, 2008. The submission of the unified budget proposals to the BOE would have needed to occur prior to the September 1 due date to comply with the statutory requirements to submit the unified request to the agencies for their submission. The LFD lists a number of options for legislative consideration following the narrative discussion on the unified budget.

As shown above, compiled by agency the Governor's proposal for the agencies that are to be part of the unified budget request in the 2011 biennium is \$2.3 billion. The request is \$94.7 million higher than the 2009 biennium appropriation for continued funding. (It should be noted that one-time only funding is eliminated in the comparison between the two biennia for all agencies included in the budget.) The general fund supports approximately 79.1 percent of the state's portion of the cost of the education system in the 2011 biennium. For discussion on the state and federal revenues included in the unified budget see the funding sections of each related state agency. The main drivers of the increases are as follows:

- The \$69.1 million increase for OPI primarily reflects present law adjustments of 3 percent per year to the basic and per-ANB entitlements as well as a number of smaller increases for various programs
- The \$23.8 million increase for the Commissioner of Higher Education is primarily due to present law adjustments at the educational units and public service/research agencies. These adjustments include annualization of the 2009 biennium pay plan, inflation, and fixed cost increases. The increase also includes permanent funding for Public Broadcasting Service Satellite delivery and BOR staff for strategic planning, information resources, communications, and collaboration with statewide agencies

Cost of Montana's education system

As discussed above, the unified budget includes the state's share of the costs of the education system in Montana. Other resources, which are not appropriated by the legislature, are provided to support the system through property taxes, college tuition payments, grants and contracts, sales and service revenues, revenue bonds, and donations.

Figure 1 presents the total funding from all sources of Montana's education system in FY 2007.

As can be seen in Figure 1, the state appropriated funds represented are 41.4 percent of the total funding of Montana's education system in FY 2007.

What is in place to complete the unified budget?

In past biennia, the Board of Education has attempted to develop a unified budget. BOE formed a Budget Committee which met to discuss the unified budget. In one period a number of MetNet conferences were completed on the unified budget process which involved getting the two boards and the other related agencies together. In this framework, according to one of the BPE members, the focus was on need and not just dollars. The most recent process BOE used was to discuss the various agency budgets as proposed and approved by their related boards, to approve the budgets as proposed, and then staple them together as the unified budget.

Figure 1
State Appropriated Funds as Percent of Total Funds for Education in Montana
Fiscal Year 2007 Actual Expenditures

Education Entity	Total Funds	State Appropriated Funds	State Appropriation as % of Total Funds, By Entity
Public Schools	\$1,319,979,600	\$794,174,139	60.2%
Higher Education ¹	1,117,908,571	208,679,413	18.7%
Board of Public Ed	360,340	360,340	100.0%
Montana School for the Deaf & Blind	4,746,733	4,746,733	100.0%
Montana Arts Council	1,203,384	1,203,384	100.0%
Montana Historical Society	3,641,275	3,641,275	100.0%
Montana State Library	3,083,276	3,083,276	100.0%
Grand Total	<u>\$2,450,923,179</u>	<u>\$1,015,888,560</u>	<u>41.4%</u>

¹FY 2007 Budgeted

During the September 9, 2004 BOE meeting, members discussed the intent of the Constitution as it related to the unified budget. Various members stated that they did not feel the BOE was following its constitutional mandate in connection with the unified budget. The BOE members unanimously approved a motion to charge the Budget Committee to review and make recommendations as to the process for presenting the unified budget in the future and suggested revisions to the definition of unified budget requests for presentation to the BOE at the next meeting.

The BOE requested assistance from the Governor's Office during its July 14, 2005 meeting to better define what a unified budget is and determine how to develop a unified budget. The goal as articulated in the minutes was that in advance of the next legislative session the BOE would have made strides in presenting a more unified budget.

The next action by the BOE occurred on July 13, 2006 when the BOE adopted a resolution to establish a Kindergarten to College Workgroup and dissolve the four committees: P-20, Indian Education for All, Unified Budget and Policy.

Kindergarten to College Workgroup (workgroup)

The workgroup is composed of 9 voting members:

- A representative of the Board of Regents
- A representative of the Board of Public Education
- The Superintendent of Public Instruction or designee
- The Commissioner of Higher Education or designee
- The Executive Secretary to the Board of Public Education
- A Student Assistance Foundation representative
- A Montana School for the Deaf and Blind representative
- The Governor or designee
- A public at-large member (student)
- A public at-large member (parent)

Areas of potential legislative policy interest included in the strategic plan of the Kindergarten to College Workgroup include school readiness; students ready for college and work; a technology framework between and among the various state agencies in the Montana education system including distance learning; closing tuition and salary gaps through college access, affordability, and transferability of credits within MUS; and Indian Education for All. The workgroup priority targets for FY 2008 include:

- Dual enrollment/distance learning
- Data coordination with and among K-12 and MUS
- K-12 campaign for college preparation

As the Board of Education did not develop a unified budget for the 2011 biennium, a clear link between the areas studied by the workgroup and their relationship to what the Board of Education is seeking to achieve through the state funding that is appropriated for education has not yet been developed.

Barriers to development of a unified budget

One of the barriers to the development of a unified budget identified by LFD is a lack of formalized process for the unified budget. As discussed above, the Board of Education dissolved its Budget Committee and did not discuss the unified budget prior to the submission of the Governor's executive budget to the legislature on November 15.

In addition, even when the Board of Education worked with a committee charged with the purpose, it appears the legislature did not consider a unified budget for the education system. At this time, LFD is unaware of any discussion of the unified budget between the Joint Appropriations Subcommittee on Education (appropriations committee) and the Board of Education. It should be noted that the state agencies included in the unified budget present their section of the budget to the appropriations committee. However, the board charged with providing for the long range planning and coordination and evaluation of the policies and program's of the state's educational systems do not participate in the legislative discussion on the educational policies articulated through the \$2.2 billion unified budget.

Another barrier is that the legislature and the BOE have not developed a clear understanding of what should be included in a “unified budget” It would appear the legislature has not previously considered the entire education system when appropriating to the various components included by statute in a unified budget request.

Finally, while the BOE is recognized in both the constitution and statutes as a state agency, it has 1.00 FTE assigned to work on the issues BOE may raise. The 2005 Legislature provided for a Board of Education staff person to provide direction, coordination, and follow-through by assisting the Governor, who serves as the chairman of the Board of Education. A determination of the workload and additional areas which may require additional support would need to be completed prior to recommendations on the need for additional funding, staff, or operational costs.

Postsecondary Education Policy and Budget Subcommittee's development of Shared Policy Goals for the Montana University System could be used as a model for the unified budget

While the process for development of a unified budget has not progressed, the development of a process between the legislature and the Board of Regents for shared policy goals has been developing over the last ten years. The legislatively appointed Postsecondary Education Policy and Budget Subcommittee (PEPB) of the Education and Local Government Interim Committee (ELGIC) is comprised of legislators, Board of Regents, the Commissioner of Higher Education, and the Governors' education policy advisor. For the 2007 interim, the PEPB reviewed and considered the initial budget request submitted by the Board of Regents for the Montana University System (MUS) for the 2009 biennium. The purpose of the review was to give PEPB the opportunity to submit funding recommendations to the Governor at the outset of the executive planning process and to consider accountability and performance measures related to specific budget initiatives.

In the 2009 interim the PEPB updated the shared policy goals and corresponding performance measures that clearly define what the legislature is seeking to achieve through the state funding that is appropriated to the university system. The shared policy goals and accountability measures help to provide a policy framework for the state appropriation of funding.

The ELGIC formed a separate subcommittee on the public education system in the 2009 interim. The K-12 subcommittee was comprised of members of the legislature, Board of Public Education, the Superintendent of Public Instruction, and the Governors' education policy advisor. At the conclusion of the interim the ELGIC recommended a bill to separate the Education and Local Government responsibilities into two separate committees. For the 2011 interim, the ELGIC proposes the K-12 subcommittee develop shared policy goals and corresponding performance measures that clearly defined what the legislature is seeking to achieve through the state funding that is appropriated to the public education system (K-12).

In addition, the proposed Education Interim Committee would work on issues related to the state's comprehensive educational system (P-20) and develop shared policy and accountability measures to define what the legislature is seeking in relation to efficiencies and effectiveness for the system as a whole.

ELGIC has identified several areas to begin the legislative conversation in relation to P-20 including:

- Reducing the remediation rates for Montana high school student entering MUS
- Coordination of distance learning efforts throughout the state's education system
- Coordination of dual credit processes whereby high school students obtain college and high school credits simultaneously

One example of a potential shared policy goal for the P-20 system could include every child ready for college or work at high school graduation. One accountability measurement for this goal could be decreases in the remediation rates for Montana high school students entering MUS. State funding for remediation is appropriated through the state's education system. Reduction in the remediation rate could result in appropriations for remediation redirected to other legislative priorities for the state's education system as the attainment of this measurement occurs.

Option:

The Joint Appropriations Subcommittee on Education could meet with the Board of Education as part of the legislative deliberations on Montana's education system. Items for discussion could include:

- (Unified) budget as proposed by the Governor including:
 - Distance education and dual credits and their relationship to the long range plans of the BOE, including the proposal to implement a virtual high school
 - Reducing remediation rates among Montana high school students entering MUS
- Challenges for the educational system in the 2011 biennium
- Long range challenges and BOE policies and programs to address them
- Recommendations on shared policy goals for consideration of the proposed Education Interim Committee and related subcommittees
- Recommendations for a cohesive educational system

Other legislative considerations on the unified budget

Statute also requires the Board of Education to include in the unified budget those agencies assigned by law to the Board of Regents, the Board of Public Education, or the Board of Education. Current statute requires the inclusion in the unified budget of the:

- Montana School for the Deaf and Blind (MSDB)
- Montana Arts Council (MAC)
- Montana Library Commission (MSL)
- Montana Historical Society (MHS)

While the MSDB is statutorily under the direction and control of the Board of Public Education, MAC, MSL, and MHS are allocated to the Board of Education for purposes of planning and coordination. Budget requests for these agencies are included in the unified budget. However, the governance, management, and control of the agencies is vested with their respective boards of trustees. How to incorporate the planning and coordination of these allocated boards is another question for consideration of both the legislature and the proposed Education Interim Committee. Legislative policy questions addressing the relationship of the allocated boards to Montana education systems and the articulation of these policies through policy goals and accountability measurements could be addressed.

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	157.36	157.36	165.86	165.86	157.36	165.86	8.50	5.40%
Personal Services	9,072,595	10,455,159	10,427,211	10,457,398	19,527,754	20,884,609	1,356,855	6.95%
Operating Expenses	13,490,967	11,748,162	14,939,420	15,812,666	25,239,129	30,752,086	5,512,957	21.84%
Equipment & Intangible Assets	50,426	59,212	50,426	50,426	109,638	100,852	(8,786)	(8.01%)
Local Assistance	634,042,814	656,324,066	673,452,694	691,525,450	1,290,366,880	1,364,978,144	74,611,264	5.78%
Grants	126,371,496	159,608,650	135,404,444	138,229,444	285,980,146	273,633,888	(12,346,258)	(4.32%)
Total Costs	\$783,028,298	\$838,195,249	\$834,274,195	\$856,075,384	\$1,621,223,547	\$1,690,349,579	\$69,126,032	4.26%
General Fund	642,761,421	666,049,445	683,384,398	702,069,023	1,308,810,866	1,385,453,421	76,642,555	5.86%
State Special	957,495	991,734	970,202	970,265	1,949,229	1,940,467	(8,762)	(0.45%)
Federal Special	139,309,382	171,154,070	149,919,595	153,036,096	310,463,452	302,955,691	(7,507,761)	(2.42%)
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$783,028,298	\$838,195,249	\$834,274,195	\$856,075,384	\$1,621,223,547	\$1,690,349,579	\$69,126,032	4.26%

Agency Description

Mission Statement: It is the mission of the Office of Public Instruction to improve teaching and learning through communication, collaboration, advocacy, and accountability to those we serve.

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section 1, of the Montana Constitution. The Office of Public Instruction (OPI) provides distribution of funding and services to Montana's school-age children and to teachers in approximately 431 school districts. The staff provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The staff also administers a number of federally-funded programs and provides a variety of information services, including the information systems necessary to assess student achievement and the quality of Montana's elementary and secondary school system.

Agency Highlights

Office of Public Instruction Major Budget Highlights	
♦	OPI's total budget would increase by \$124.3 million during the 2011 biennium compared with base expenditures in FY 2008.
♦	State level activities increase by \$6.5 million and distribution to schools increases by \$117.8 million
♦	The executive is requesting the following for the State Level Activities Program: <ul style="list-style-type: none"> • \$3.3 million for present law changes • \$1.5 million for a new virtual high school
♦	The executive is requesting the following for the Distribution Program: <ul style="list-style-type: none"> • Fund increases in the basic and per-ANB entitlements of 3 percent per year, \$68.5 million • Spend more general fund for BASE aid due to lower guarantee account revenues from state lands, \$4.0 million • Increase other categorical items to reflect present law, \$7.1 million • Increase federal funds, \$20.7 million • Increase the quality educator payment by \$100 per year, \$3.9 million

- Increase special education by 3 percent per year, \$4.5 million
- Divert streambed rents from the guarantee account to the new facility improvement account, \$8.7 million
- Institute a new resource sharing program to aid small schools, \$0.2 million, and
- Institute a new mini grant program to make competitive grants available for schools to provide more or improved breakfast or lunch programs, \$0.1 million, OTO

Major LFD Issues

- ♦ Present Law Adjustment Issues
 - Actual three year average inflation calculated for FY 2010 is 3.22 percent and for FY 2011 is 4.03 percent compared to the 3 percent per year proposed by the executive
 - The executive does not propose adjusting the Indian education for all payment, the at-risk payment, or the achievement gap payment
 - The executive proposes an increase in general fund for BASE aid of \$4.0 million that reflects the executive's estimates of lower common school revenues. The Revenue and Transportation Committee adopted common school revenues that were \$5 million higher than those estimated by the executive, thus freeing up \$5 million in general fund relative to the executive's recommendations.
 - The executive proposes an increase of \$1.6 million in the school facilities reimbursement payment, but if Billings passes a new building bond, the school facilities reimbursement may have to be prorated among all the eligible districts.
- ♦ General Fund New Proposals
 - The executive's proposal to use the new streambed rents (\$8.7 million) for facility improvements increases state general fund by a like amount. If the new money is used for BASE aid, general fund would be lower, or new BASE aid could be added.
 - The executive's estimate of streambed rents exceeds the estimates adopted by the RTIC by \$0.2 million for the 2011 biennium
 - The executive proposes using timber revenue from state lands to provide approximately \$5.6 million as an inflow of money into the facility improvement account. This money is currently distributed to all districts to purchase and maintain information technology in schools.
- ♦ Tax Policy Issue – The executive does not take into account the impact of reappraisal on state GTB aid and local district property taxes beginning in FY 2010

Agency Discussion

LFD ISSUE

Shared Policy Goals

Shared policy goals and related accountability measures for the K-12 education system can begin in the current legislative session through legislative discussion of the goals and measures for the partners involved in the K-12 education system.

As discussed in the Unified Budget narrative section, the Education and Local Government Interim Committee (ELGIC) formed a subcommittee on K-12 education during the interim to begin the process of developing shared policy and budget goals and objectives. The subcommittee was made up of legislators from the ELGIC, Board of Public Education members, and the Superintendent of Public Instruction. From the work begun in this committee, the ELGIC determined that formalizing the process to develop shared policy goals and accountability measures for the K-12 education system should be put in place, similar to the process used with the Postsecondary Education Policy and Budget Subcommittee of the ELGIC.

The ELGIC is recommending the legislature change the committee structure for the ELGIC to two interim committees, one on education and one on local government and related issues. The committee has requested a bill.

Option: The Joint Appropriations Subcommittee on Education can begin the development of shared policy goals and related accountability measures in the current legislative session through discussion of the goals and measurable objectives for the K-12 education partners including OPI.

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Agency Market** – The agency target market ratio for the 2011 biennium under the 2008 market survey is 90 percent for all staff. OPI has a single program, the State Level Activities Program, with FTE. A discussion on the current market ratio, vacancies, pay raises, and retirements is included in the program narrative.
- o **Obstacles** - Dependency on federal funding sources makes sustainability an important consideration. OPI competes with other agencies and with school districts for certain personnel, which hinders recruitment and retention efforts in certain fields.

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2011 Biennium Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
06 State Level Activities	\$ 21,232,337	\$ 440,467	\$ 31,071,803	\$ 52,744,607	3.12%
09 Local Education Activities	<u>1,364,221,084</u>	<u>1,500,000</u>	<u>271,883,888</u>	<u>1,637,604,972</u>	<u>96.88%</u>
Grand Total	<u>\$1,385,453,421</u>	<u>\$ 1,940,467</u>	<u>\$302,955,691</u>	<u>\$1,690,349,579</u>	<u>100.00%</u>

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

Statutory Appropriations Office of Public Instruction					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<i>Local Government Distributions to School Districts</i>					
Guarantee account for distributions to school districts	20-9-622	SSR	\$54,698,802	\$57,047,202	\$54,106,265

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

The funding in the guarantee account is distributed to local school districts. All distributable income and interest on the common school trust is deposited into the account. The guarantee account is used to pay for direct state aid to local school districts. If revenues from the common school trust increase, the amount of aid paid for by the general fund decreases.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	642,761,421	642,761,421	1,285,522,842	92.79%	783,028,298	783,028,298	1,566,056,596	92.65%
Statewide PL Adjustments	552,796	597,807	1,150,603	0.08%	1,041,649	1,110,468	2,152,117	0.13%
Other PL Adjustments	32,484,631	47,331,905	79,816,536	5.76%	42,618,698	60,558,728	103,177,426	6.10%
New Proposals	7,585,550	11,377,890	18,963,440	1.37%	7,585,550	11,377,890	18,963,440	1.12%
Total Budget	\$683,384,398	\$702,069,023	\$1,385,453,421		\$834,274,195	\$856,075,384	\$1,690,349,579	

Language and Statutory Authority

"The Office of Public Instruction may distribute funds from the appropriation for instate treatment to public school districts for the purpose of providing for educational costs of children with significant behavioral or physical needs."

"All revenue up to \$1.1 million in the state traffic education account for distribution to schools under the provisions of 20-7-506 and 61-5-121 is appropriated as provided in Title 20, chapter 7, part 5."

"All appropriations for federal special revenue programs in state level activities and in local education activities, and all general fund appropriations in local educational activities are biennial."

Agency Issues

Elected Official Proposals

Program 06 - State Level Activities

The Superintendent of Public Instruction proposes additional general fund to support payment of stipends in the amount of \$3,000/teacher to Montana teachers who achieve certification from the National Board for Professional Teaching Standards. OPI estimates that 12 teachers will be eligible for the stipends in each year of the 2011 biennium. Section 20-4-134, MCA provides for the payment of a one-time stipend of \$3,000 to any teacher who achieves certification from the National Board for Professional Teaching Standards. Stipends were paid to four teachers in FY 2008. Additional funding of \$24,000 in FY 2010 and \$24,000 in FY 2011 is needed for the 8 additional teachers qualifying for the stipends each year.

The Superintendent also proposes \$67,180 in FY 2010 and \$63,680 in FY 2011 of general fund to contract for attorney or investigator services as needed for licensure issues related to inappropriate conduct by educators and to support Montana's participation in national efforts to ensure educators are highly qualified in both academic preparation and moral character/fitness. OPI's participation in the National Association of State Directors of Teacher Education and Certification (NASDTEC) is required by 20-4-121, MCA and ARM 10.57.606. The \$3,500 membership fee is paid from the OPI general fund base budget. However, as a part of that membership, licensure/legal staff is expected to attend regional and national conferences to represent OPI with NASDTEC, and to share information concerning best practices regarding educator licensure.

Program 09 - Local Education Activities

For Local Education Activities the Superintendent requests a biennial general fund appropriation of \$48,000 for the 2011 biennium to provide an inflationary increase in the state appropriation for adult basic and literacy education. This cost is based on a 3 percent annual inflationary adjustment for FY 2010 and FY 2011. The state required match share of adult literacy and basic education is approximately 25 percent of the total amount expended for adult education. With level federal funding since 1998 and a 1.4 percent cut in federal funds for the 2009 program year, this inflationary increase will offset the net decrease in the overall federal funding for adult basic and literacy education services.

Another request would increase general fund for a biennial \$1.0 million appropriation to provide additional funding to local school districts for gifted and talented programs that are required by state statute and Board of Public Education Administrative Rules of Montana. Without an increase in state funding for these programs, local school districts would need to determine if additional funding support for these programs should be increased through the local general fund. The Superintendent believes the amount of resources directed toward these programs is significantly less than what is required to operate educationally sound and effective programs for gifted and talented students.

The superintendent also proposes \$2.5 million in general fund to establish a statewide system of regionally based professional development and technical assistance for schools. The superintendent would provide resources to strengthen the infrastructure for the delivery of coordinated regional training and technical assistance to schools, and provide funds for regional specialists to support schools in instructional technology and effective methods for serving children with autism.

The Board of Public Education is constitutionally charged with the general supervision of the public school system. OPI included the elected official proposals in the budget discussed with the Board of Public Education.

School Funding Lawsuit

In February of 2008, the plaintiffs in *Columbia Falls v State of Montana* filed a motion in the district court alleging that the State's school funding formula failed to provide adequate funding for fiscal year 2009. Plaintiffs also alleged that the current funding formula does not reflect the cost of a basic quality education, that the current formula contains elements that are essentially the same as those that were suspect in the original suit, and that the new components represent only 5 percent of the statewide district general fund budget.

The case was heard in Judge Sherlock's district court the week of September 22-26, 2008. The State argued that the QSIC had determined the cost of a basic system of quality education, and that the current spending levels by the K-12 system were actually above those costs, and that the changes to the K-12 system legislated in the past four years – the four new components, three year averaging of ANB, full-time kindergarten, inflation of the basic and per-ANB entitlements and special education, and increased guaranteed tax base aid – represented nearly 17 percent of 2009 district general fund budgets.

On December 9th, 2008, Judge Sherlock ruled that the district court would decline supplemental relief for the plaintiffs. It is likely that the case will be appealed to the state Supreme Court.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	157.36	157.36	165.86	165.86	157.36	165.86	8.50	5.40%
Personal Services	9,072,595	10,455,159	10,427,211	10,457,398	19,527,754	20,884,609	1,356,855	6.95%
Operating Expenses	13,490,967	11,744,164	14,939,420	15,812,666	25,235,131	30,752,086	5,516,955	21.86%
Equipment & Intangible Assets	50,426	59,212	50,426	50,426	109,638	100,852	(8,786)	(8.01%)
Local Assistance	503,530	488,801	503,530	503,530	992,331	1,007,060	14,729	1.48%
Total Costs	\$23,117,518	\$22,747,336	\$25,920,587	\$26,824,020	\$45,864,854	\$52,744,607	\$6,879,753	15.00%
General Fund	9,200,157	10,186,159	10,310,234	10,922,103	19,386,316	21,232,337	1,846,021	9.52%
State Special	207,495	241,734	220,202	220,265	449,229	440,467	(8,762)	(1.95%)
Federal Special	13,709,866	12,319,443	15,390,151	15,681,652	26,029,309	31,071,803	5,042,494	19.37%
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$23,117,518	\$22,747,336	\$25,920,587	\$26,824,020	\$45,864,854	\$52,744,607	\$6,879,753	15.00%

Program Description

The State Level Activities program provides leadership and coordination of services to a variety of school and public groups. The staff provides assistance to the Superintendent of Public Instruction in performing statutorily prescribed duties. The program: 1) supports the Superintendent's statutory role with the Board of Public Education, Board of Regents, and Land Board; 2) is responsible for the distribution and accounting of state and federal funds provided to school districts; 3) maintains the information systems necessary to assess student achievement and the quality of Montana's elementary and secondary school system; and 4) provides assistance and information to school districts. The program administers all federal grants received by OPI, including: 1) curriculum assistance; 2) special education; 3) Elementary and Secondary Education Act/No Child Left Behind (ESEA/NCLB) administration; 4) secondary vocational education administration; and 5) other educational services.

Program Highlights

State Level Activities Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The proposed budget for the state level activities increases \$6.9 million between the 2011 and 2009 biennia. ◆ \$3.3 million of the increase is from present law changes primarily for statewide present law present law adjustments and adjustments to fund grant amounts ◆ The executive proposes \$1.5 million for a new virtual high school ◆ General fund increases \$1.8 million between the two biennia 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ System development costs for the student information system were included as part of the 2011 biennium budget ◆ OPI objectives do not provide sufficient information for the legislature to form an appropriations policy for the program ◆ Proprietary fund revenues budgeted in the State Level Activities Program do not support OPI Indirect Cost Pool Program budgeted expenditures 	

Program Narrative

The proposed budget for the state level activities increases \$6.9 million between the 2011 and 2009 biennia. Over \$5.5 million of the increase is due to higher operating expenses. Increased operating expenses, include:

- o \$1.5 million to develop a virtual high school
- o \$1.6 million for costs related to federal grants
- o \$0.3 million for additional indirect costs
- o \$0.3 million for statewide present law inflationary and fixed costs changes
- o \$1.8 million for consulting and professional services above the FY 2008 budget

**LFD
ISSUE**

Costs for the K-12 educational data system development included in 2011 biennium budget

The 2007 Legislature approved \$3.6 million in general fund biennial appropriations for the K-12 education data system. The data system was estimated to cost \$1.9 million in FY 2008 and \$1.6 million in FY 2009. The system costs included development of a new module for special education, local school district software, and an educator module. In addition, support for 4.00 FTE for maintaining the system was included. According to OPI, the maintenance contract costs of the system will be approximately \$435,000 a year for the state system and the special education modules. The cost of maintaining the school district component is an additional \$487,500 per year. Included in the FY 2008 base budget is \$740,000 for professional and consulting services related to the development of the modules. It should be noted that the costs for maintaining the school districts is recorded in the grants to local districts expenditure category and is not part of the costs recorded in professional and consulting services. These costs are not considered recurring as they are for development of the system. While OPI will need \$435,000 per year to support the costs of the maintenance contract, it will not require the full \$740,000 in the 2011 biennium.

The legislature could reduce general fund by \$600,000 over the biennium to eliminate the costs of system development continued in the 2011 biennium.

**LFD
COMMENT**

Charges for indirect costs were approximately \$1.0 million less than budgeted in FY 2008. The indirect cost recovery rate included in the budget was 19.4 percent, while the actual approved federal indirect cost recovery was 14.0 percent. In FY 2008, OPI recovered approximately 11 percent on indirect cost recoveries due to a large fund balance which federal auditors recommended be reduced. The reduction in the federal indirect cost recovery rate meant that the State Level Activities Program was charged \$1.6 million rather than the \$2.6 million budgeted in FY 2008. FY 2009 charges will also be less than budgeted. For a discussion of the 2011 biennium rate, see the Proprietary Rates section in this program.

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 biennium.

The LFC monitored several program goals related to new proposals approved by the 2007 Legislature.

Goal 1

The legislature provided \$1.885 million over the biennium for curriculum specialists. The 6.00 new FTE were to provide technical assistance to K-12 public schools in science, mathematics, kindergarten, communication arts, library media, and high school curriculum and dropout prevention. The program performance measurements included:

- o Develop model curriculum in science and model curriculum for full time kindergarten and disseminate to Montana schools
- o Revise content and performance standards in two academic areas and disseminate to Montana schools
- o Provide on-site assistance to Montana schools using the effective schools research and peer reviews. Curriculum specialists will assist Montana educators in revisions of their five-year comprehensive education plans and meeting accreditation standards

Status

OPI estimated it would hire six curriculum specialists by 12/1/2007. OPI has been unable to fill the curriculum specialist positions for communication arts, kindergarten, or high school curriculum and dropout prevention. Specialists for library media, mathematics, science, and middle school/at risk have been hired. OPI also temporarily hired staff to work in the area of high school redesign.

OPI included developing and disseminating a model curriculum for science and full time kindergarten in FY 2008 as another milestone for the curriculum specialists. As of October 2008, OPI has provided professional development modules to science teachers based on new science standards. Upon completion of these modules, OPI will work with a team of educators to develop a model science curriculum. As of October 2008, OPI had developed and disseminated a draft full-time kindergarten model curriculum. OPI will gather comments on the draft and incorporate them into the final curriculum, which should be issued sometime in FY 2009.

Another milestone was to develop and disseminate revised content and performance standards for library/media and technology in FY 2008. The Board of Public Education adopted revised content and performance standards for literacy/library media and technology in July 2008. OPI has posted the revised standards on its website for school personnel.

Finally, OPI was to provide assistance to Montana educators in the revision of the five-year comprehensive education plan. Each school district is required to develop a five-year comprehensive education plan outlining various components of each district's educational system. OPI completed phase 1 of the development of a web-based online application of the five-year comprehensive education plan with on-site reviews to be conducted in FY 2009.

Goal 2

The 2007 Legislature also provided for continued funding of \$3.459 million in general fund for OPI to implement the K-12 Data System. The funds were to improve data collection practices and data quality on K-12 students and enhanced to include data on educators.

Status

As of October 2008, OPI had the student data system (Achievement in Montana or AIM) operational as it related to student demographic and assessment data. One effect of having the student data system operational was the elimination of six reports associated with student information including:

- o High school completer count

- Montana dropout count
- Limited English proficient student count
- Immigrant student count
- Gifted student count
- Disaggregated enrollment

OPI used AIM to register students for the statewide assessment of students with limited English proficiency and to transmit applications from school districts for funding for No Child Left Behind, the Individuals with Disabilities Education Act, Migrant Education, Carl Perkins, and 21st Century Learning Communities. OPI is currently in the process of adding a special education module which includes development and monitoring of the Individual Education Plan as a component. OPI had targeted this to be completed in FY 2008. The revised target date is now FY 2009.

The educator component or school staffing component of the data base has been delayed until the special education module is completed. The initial phase of the work has been started with work on the design phase. OPI has identified a system in Oregon which may be adapted to Montana. The program would incorporate a teacher preparation program, teacher licensure, employment with school districts, and retirement information.

Goal 3

Further development of the professional development component of the Indian Education for All (IEFA) Program was included for review by the LFC. The performance measurements for this goal were:

- Each year there will be a 10 percent increase in the number of schools reporting that their staff received IEFA professional development
- The number of schools reporting an increase in each of their stakeholders' knowledge will increase by an additional 5 percent from low to medium and medium to high each year
- Within five years, the percentage of school districts that indicate teacher training as their greatest IEFA need will decrease from 40 percent to 20 percent
- OPI will contract with an outside evaluator to measure the effectiveness of its IEFA professional development program, determine gaps in its delivery, discover areas of improvement, and gauge successes.

Status

The number of schools reporting that they offered IEFA professional development to their staff increased from 60 percent in 2005 to 92 percent in 2007.

The number of schools reporting an increase in each of their stakeholders' knowledge increased as follows:

- In 2005, 21 percent of schools reported their stakeholders knowledge as low compared to 5 percent in 2007
- In 2005, 62 percent of schools reported their stakeholders knowledge as medium compared to 67 percent in 2007
- In 2005, 17 percent of schools reported their stakeholders knowledge as high compared to 28 percent in 2007

The percentage of school districts that indicated teacher training as their greatest IEFA need decreased in 2007 to 33 percent when compared to 40 percent reported in 2005.

OPI contracted with Northwest Regional Educational Lab to determine a research strategy and process to measure the effectiveness of OPI's IEFA professional development program.

Goal 4

Finally, the LFC monitored OPI's goal to close the American Indian student achievement gap. The 2007 Legislature provided \$0.382 million in general fund for this component of Indian Education Program. The measurements for this goal included:

- Annually, OPI will analyze data and report trends related to statewide assessments, dropout rates, completion and graduation rates, suspension and expulsion numbers, and special education
- OPI will annually break down school achievement data by school demographic population as well as looking at schools that are on or near reservations and urban areas
- OPI will annually provide focused technical assistance to schools needing support as determined by the data analysis

- OPI will annually collect quantitative and qualitative data in order to develop a system that measures how well a school meets the needs of American Indian student.

Status

As of October 2008, OPI was on the fourth recruitment for an OPI Indian student achievement data and research analyst. Other staff assigned to the program have reviewed, analyzed, and reported on data to varied audiences, including breaking down school achievement data by school demographic population; implementing school support teams to visit and evaluate schools in the restructuring phase of No Child Left Behind; partnering with four schools to pilot projects in math, early childhood, science, and after-school programs for Indian students; and providing four conferences for schools in the restructuring phase of No Child Left Behind.

Challenges

Restructuring is required under No Child Left Behind legislation if students do not make adequate yearly progress five years in a row. Of the 39 schools in the restructuring phase under No Child Left Behind, the majority are either on or bordering one of the seven Indian reservations in Montana.

Between FY 2002 and FY 2007, American Indians represented only 11.5 percent of the total school enrollment for grades 7 through 8, but accounted for 69.2 percent of the dropouts. For grades 9 through 12, American Indians represented 10.2 percent of the total school enrollment and 23.1 percent of the dropouts.

2011 Biennium Major Goals

OPI is required by law to submit goals and objectives as part of the budgeting process. The LFD and the LFC recommends that the legislature adopt specific goals and corresponding objectives for monitoring during the interim. OPI submitted the following goals for the State Level Activities Program for the 2011 biennium:

- Support schools so that all students can achieve high standards
- Assess and communicate the quality and achievements of K-12 education
- Provide access to and management of information and data related to K-12 school improvement
- Deliver quality instruction through professional development
- Support accountability and improvement in all Montana schools

LFD ISSUE

The objectives submitted for the 2011 biennium goals do not include measurements or timelines for completion.

For example, to measure the goal to support schools so that all students can achieve high standards OPI lists the following objectives:

- Provide targeted assistance and training for low-performing and/or at-risk students and schools
- Provide technical assistance to schools to serve students with special needs
- Provide comprehensive and focused technical assistance to local districts to increase the achievement and graduation rates of American Indian students

The percentage of schools and students currently requiring targeted assistance and training is not included nor is a target for reducing the number of low performing or at risk students by a specific date. One of the components of No Child Left Behind is determining which students or schools are low performing as evidenced by the number of schools with students that are not able to make adequate yearly progress. American Indian achievement is also tracked through the No Child Left Behind process. OPI has been working with school districts for over five years on No Child Left Behind and has a significant pool of data on low performing or at risk students and schools as well as those schools with high numbers of American Indian students and their achievement and graduation rates. In addition, federal grant requirements for special needs funding requires OPI to determine the number of students with special needs. The information can be used to establish measurements and timelines for the objectives presented by OPI for the 2011 biennium budget.

**LFD
ISSUE (CONT.)**

As currently written, the objectives do not provide sufficient information for the 2009 Legislature to formulate an appropriations policy for the State Level Activities Program. As the program is not requesting additional support for low performing or at-risk students, students with special needs, or to improve the graduation rates of American Indian students, it appears OPI believes that the current budget is sufficient to implement the listed goals. In order to formulate an appropriations policy for this program the legislature may wish to know:

- What percentage of low performing students and schools will receive targeted assistance in the 2011 biennium?
- Are the components included in the pilot project in math, early childhood, science, and after-school programs part of the targeted assistance programs? If so, will additional sites be using these new programs? How will they be supported in the proposed budget?
- The number of children requiring special education has been decreasing over the last five years, yet state support has not decreased. Is the level of severity of the children served under special needs increasing and thus costing the state more per child? How do state level activities support the school districts working with children with special needs? What additional technical assistance will be included in the 2011 biennium? Are there schools who require additional support for special needs children?
- What is included in the comprehensive and focused technical assistance to local districts which will result in increased achievement and graduation rates for American Indian students in the 2011 biennium? How many districts have been identified to receive this assistance? How will success be measured for the program in the 2011 biennium?
- What programs provide support and technical assistance for those districts identified for corrective action or improvement under No Child Left Behind?
- By what percentage does the program project low performing or at risk students will be reduced in the 2011 biennium as a result of the program meeting its objectives?
- What is the projected percentage the achievement levels of special needs children will increase in the 2011 biennium as a result of program activities in the 2011 biennium?

The objectives discussed above are a small percentage of those submitted by OPI.

The Education and Local Government Interim Committee (ELGIC) formed a subcommittee on K-12 education during the 2009 interim. One of the recommendations coming out of the work of the ELGIC is a bill draft request for a process to develop shared budget and accountability measures for the K-12 education system in the 2011 interim. Currently, the Postsecondary Education Policy and Budget (PEPB) subcommittee works with the Board of Regents and the Montana University System to develop and propose shared budget and accountability measures as part of the budget presented to the legislature. ELGIC members envision a similar process for K-12 education. One of the components of the process is specific, defined, measurable, time-bound objectives to implement the shared budget and policy goals.

Option: The Joint Appropriation Subcommittee on Education can further the work of the ELGIC by requesting that OPI provide the legislature with specific, measurable, time-bound objectives for its goals in the 2011 biennium. In addition, the information would allow the legislature to formulate an appropriations policy for the State Level Activities Program for the 2011 biennium.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Program Funding Table							
State Level Activities							
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011	
01000 Total General Fund	\$ 9,200,157	39.8%	\$ 10,310,234	39.8%	\$ 10,922,103	40.7%	
01100 General Fund	9,200,157	39.8%	10,310,234	39.8%	10,922,103	40.7%	
02000 Total State Special Funds	207,495	0.9%	220,202	0.8%	220,265	0.8%	
02001 School Lunch Program	84,986	0.4%	85,172	0.3%	85,198	0.3%	
02402 Traffic & Safety Education	122,487	0.5%	135,030	0.5%	135,067	0.5%	
02618 Prof Educator Prep Program	22	0.0%	-	-	-	-	
03000 Total Federal Special Funds	13,709,866	59.3%	15,390,151	59.4%	15,681,652	58.5%	
03002 Public Instruction	13,709,866	59.3%	15,390,151	59.4%	15,681,652	58.5%	
Grand Total	\$ 23,117,518	100.0%	\$ 25,920,587	100.0%	\$ 26,824,020	100.0%	

General fund supports the majority of the costs of the Superintendent's Office, Indian education, information technology services, and state distributions to schools; approximately half of the costs of legal services, measurement and accountability, and accreditation programs; and a small portion of curriculum services, special education services, career technical and adult education, and health enhancement and safety programs.

State special revenues fund a portion of the costs of the School Lunch Program and the Traffic and Safety Education. Revenues for the School Lunch Program are generated through reimbursements for the costs of shipping, handling, and other related costs of school food commodities used in the School Lunch Program. Traffic and Safety Education revenues are generated through a percentage of the driver's license fee, commercial driver's license fees, and replacement driver's license fees.

The administrative component of numerous federal grants is used to support state level activities. Increased federal grants include Elementary and Secondary Education Act Title I, federal data collection grant, state assessment funds, IDEA, Part B, and Carl Perkins funds.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	9,200,157	9,200,157	18,400,314	86.66%	23,117,518	23,117,518	46,235,036	87.66%
Statewide PL Adjustments	552,796	597,807	1,150,603	5.42%	1,041,649	1,110,468	2,152,117	4.08%
Other PL Adjustments	100,380	118,155	218,535	1.03%	1,304,519	1,590,050	2,894,569	5.49%
New Proposals	456,901	1,005,984	1,462,885	6.89%	456,901	1,005,984	1,462,885	2.77%
Total Budget	\$10,310,234	\$10,922,103	\$21,232,337		\$25,920,587	\$26,824,020	\$52,744,607	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----						-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,333,413					1,364,618
Vacancy Savings					(410,937)					(412,184)
Inflation/Deflation					76,728					112,098
Fixed Costs					42,445					45,936
Total Statewide Present Law Adjustments					\$1,041,649	\$1,110,468				
DP 7 - Audiological Services										
	0.00	21,998	0	0	21,998	0.00	33,485	0	0	33,485
DP 14 - Traffic Education Budget Adjustment										
	0.00	0	12,000	0	12,000	0.00	0	12,000	0	12,000
DP 15 - Indirect Cost of Base Adjustments										
	0.00	78,382	90	68,672	147,144	0.00	84,670	97	72,014	156,781
DP 19 - Federal Grant Award Adjustments - Program 06										
	8.50	0	0	1,123,377	1,123,377	8.50	0	0	1,387,784	1,387,784
Total Other Present Law Adjustments										
	8.50	\$100,380	\$12,090	\$1,192,049	\$1,304,519	8.50	\$118,155	\$12,097	\$1,459,798	\$1,590,050
Grand Total All Present Law Adjustments					\$2,346,168	\$2,700,518				

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD. OPI has personal service costs budgeted exclusively in the State Level Activities Program. Thus the program information and the agency information for personal services are the same.

- o **Market Rate** – OPI expects its target market ratio will be 89 percent relative to the 2008 market survey after implementing the HB 13 pay adjustments. Higher entry salaries are sometimes necessary when OPI must compete with higher paying state agencies and school districts for experienced staff or when shortages of certain skill sets exist for certain job categories. As an oversight agency for the state's K-12 programs, OPI staff must be experts in their fields in order to provide appropriate, adequate technical assistance to school district staff. People who have the necessary education and experience to fill positions as experts will have several years of related experience, often have masters degrees, and often need to have previous experience working in school districts, which generally offer a higher rate of pay.
- o **Vacancy** – OPI has a number of occupations with high turnover rates or frequent vacancies including instructional coordinators, accountants, computer programmers, and project managers. It has implemented paying entry above market, hiring staff on training assignments, providing flexible schedules, and providing on-the-job training to increase the competencies of existing staff.
- o **Legislatively applied vacancy savings** – OPI was able to generate the legislative required vacancy savings through the vacancies generated within the program.
- o **Pay Changes** – OPI funded pay changes given outside of HB 13 using vacancy savings and federal funding increases. Over half of the pay changes were for performance pay and the majority of the rest were for exempt employee pay changes.
- o **Retirements** – Approximately 41 percent or 64.00 FTE are eligible for full retirement in the 2011 biennium. The compensated absence liability for these employees is \$1.34 million. OPI estimates the actual number of retirements in this period will be 15 employees with an estimated compensated absence liability of \$315,000.

DP 7 - Audiological Services - The executive requests support for an anticipated 3 percent increase each year of the biennium for the audiological services contract for the Hearing Conservation Program. The Individuals with Disabilities Education Act requires public schools to have an effective child find system in place for children through age 21 who are suspected of having disabilities. The Hearing Conservation Program is the primary method for schools to ensure proper identification of students with hearing impairments.

DP 14 - Traffic Education Budget Adjustment - The executive is proposing an increase in administrative operating funds of \$12,000 per year for the 2011 to maintain present level traffic education (TE) services to public schools and to eliminate nonrecurring appropriations through personal services contingencies. The TE program provides administrative services to public schools for district-provided driver education programs. In addition to teacher and program approval processes and state reimbursement distributions, these services include supervision and assessment of approved traffic education courses; preparation for teachers of traffic education; development, printing, and distribution of essential instructional materials for traffic education; and any other activities considered necessary by the superintendent of public instruction.

DP 15 - Indirect Cost of Base Adjustments - The executive requests additional appropriation authority for the indirect cost portion of the general fund, state special revenue fund and federal funds statewide level base adjustments. The general fund requirement is \$163,053 over the biennium. In addition to providing central services within the agency, these adjustments fund increases in statewide cost assessments for the legislative audit, SABHRS costs, a portion of the increases in rent, and others.

DP 19 - Federal Grant Award Adjustments - Program 06 - The executive proposes to adjust federal spending authority for grant awards due to anticipated increases and decreases in federal funding. Funds are used to support the administration of current federal grants and provide technical assistance to schools. The adjustment is \$1,123,377 in FY 2010 and \$1,387,784 in FY 2011. This request is for a biennial appropriation.

LFD COMMENT

In the 2009 biennium the legislature approved an additional \$1.8 million in federal revenue appropriation authority for increases in grant awards. As shown above, OPI anticipates an additional increase of \$2.5 million to support personal services and operation costs in the State Level Activities Program. Given the current economic crisis, and the state of the national economy, the Joint Appropriations Subcommittee on Education may wish to discuss how OPI would address potential decreases in federal support. For example, will OPI request state support for the programs and services or will reductions need to occur? What does OPI envision as priorities for programs and services should federal reductions in education occur?

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				Fiscal 2011				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 21 - 21st Century E-learning - MT Virtual High School (Requires Legislation)										
06	0.00	450,000	0	0	450,000	0.00	1,000,000	0	0	1,000,000
DP 26 - Student Assessment										
06	0.00	0	0	0	0	0.00	0	0	0	0
DP 6101 - Fixed Cost Workers Comp Management Program Allocate										
06	0.00	6,901	0	0	6,901	0.00	5,984	0	0	5,984
Total	0.00	\$456,901	\$0	\$0	\$456,901	0.00	\$1,005,984	\$0	\$0	\$1,005,984

DP 21 - 21st Century E-learning - MT Virtual High School (Requires Legislation) - The executive proposes \$1.45 million in the 2011 biennium to provide pass-through funding to establish a year-round virtual high school in the University of Montana (UM) School of Education. The virtual high school would provide distance learning courses to increase access for Montana students. The executive proposes using the virtual high school to provide core courses for accreditation, accelerated learning classes, and credit recovery to improve graduation rates. In the first year, the UM, guided by an advisory council, would conduct a needs assessment and build curriculum based on the results of the assessment. In the second year, Montana certified quality educators will be hired to deliver e-courses to students who remain enrolled in their local school districts. In addition, the virtual high school would serve as a source to integrate e-learning in Montana's teacher preparation programs.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The virtual high school would provide distance learning courses to increase access for all students in Montana to support quality schools. The Governor's Office proposes to provide core courses for accreditation, accelerated learning classes, and credit recovery to improve graduation rates. The executive proposes in the first year of the 2011 biennium to have the University of Montana, guided by an advisory council, conduct a needs assessment and build curriculum based on the results of the assessment. In the second year of the biennium, Montana certified quality educators will deliver e-courses to students who remain enrolled in their local school districts. In addition, the virtual high school will serve as a source to integrate e-learning in Montana's teacher preparation programs.

Goals: The first goal of the OPI is to support schools so that all students can achieve high standards. Data demonstrates that the improvement necessary for the state to continue to offer a high quality education lies in the ability of schools to offer core courses to meet accreditation standards, accelerated learning classes, and credit recovery to improve graduation rates.

The next goal of the OPI is to deliver quality instruction through professional development. Professional development will be an important part of implementing and continuing the virtual high school to assure staff in the local high schools can provide assistance to students enrolled in these courses. In addition, the virtual high school will serve as a source to integrate e-learning in Montana's teacher preparation programs.

The last goal of the OPI is to support accountability and improvement in all Montana schools. This proposal directly ties into this goal by providing a service to schools to assist in meeting accreditation standards by providing Montana certified quality educators to deliver e-courses to students that local districts are not able to provide.

Performance Measures: The OPI will pass through funding to the University of Montana, College of Education. The OPI will continue to monitor school district accreditation standards and provide data for the virtual high school to determine course offerings and school district needs for core courses to meet accreditation, accelerated learning classes, and credit recovery to improve graduation rates.

Milestones: In FY 2010, an administrator will be hired. Staff will be hired to develop an assessment, collect data and evaluate where schools are not currently able to provide core courses for accreditation, accelerated learning classes, and credit recovery to improve graduation rates. In the spring of 2011, teachers will be hired to develop courses to be taught beginning the fall of 2010 for the school year 2011 based on the results of the assessment.

FTE: All FTE accompanying this proposal would be University of Montana staff:

- 1.00 FTE – Director of Program
- 1.00 FTE – Tech Director/Educator
- TBD – Work study students as Help Desk Support
- 6.00 FTE – K-12 Montana certified quality educator

In addition there would be an unpaid advisory council.

Funding: This proposal is for a general fund appropriation.

Obstacles: Montana has a strong local control tradition whereby local school boards make academic decisions for their individual districts. While the OPI and the University of Montana, Department of Education can offer technical assistance and support for schools to have access to the virtual high school, they cannot compel schools to engage in any practice nor can it impose sanctions for schools not meeting accreditation standards or to improve graduation rates. Funding this proposal, however, allows the state to provide a service to schools to provide core courses for accreditation, accelerated learning classes, and credit recovery to improve graduation rates.

Risk: The risk of this proposal is that schools would not utilize the services of the virtual high school to provide core courses for accreditation, accelerated learning classes, and credit recovery to improve graduation rates and still not meet accreditation standards or offer students accelerated learning classes or the chance for credit recovery. Not utilizing the virtual high school would deny students equitable access to core courses, accelerated classes, and credit recovery while putting them at risk of not being prepared for 21st Century learning, not being adequately prepared for college and not allowing students to participate on a level playing field with students from other states who have distance learning experiences.

**LFD
ISSUE**

Proposal not discussed with BPE

This proposal was not included in OPI's budget submission to the Governor's Office. The Board of Public Education is constitutionally charged with the general supervision of the public education system and as such sets the policies for the state's public education system. While the BPE has articulated its support of developing distance education through its implementation of administrative rules, this policy proposal was not presented to the BPE for consideration.

To ensure the BPE has the opportunity to provide to the legislature their input on the policy decision articulated in this budget request, the legislature may wish to request BPE provide its input on the proposal.

**LFD
ISSUE**

LFD has identified several questions which the legislature may wish to clarify as part of determining its support for this appropriation. The legislature may wish to know:

- o What are the baseline results for FY 2008 for accreditation standards, graduation rates, numbers of students taking accelerated learning classes and credit recovery classes, as the proposal discusses data to demonstrate improvement is necessary?
- o How many schools currently offer some distance learning to their students for accelerated learning or credit recovery?
- o Currently, what is included in teacher preparation programs currently for e-learning in the classroom?
- o What are the measurements for the program which would determine the success of the Virtual High School, as currently presented the measurements are to give the money to the University of Montana and provide data to determine courses and needs for the core classes?
- o What data will OPI provide to the University of Montana?
- o The obstacles identified discuss that neither OPI nor the University of Montana, Department of Education can impose sanctions for schools not meeting accreditation standards. The Board of Public Education, the entity charged with general supervision of the public education system, can impose monetary sanctions in regard to accreditation standards if a school is not in compliance for a number of years. Does the Board of Public Education believe this is an obstacle to implementing this proposal?
- o Is there a need for state-provided accelerated learning classes? How was the need identified?
- o Have there been any surveys conducted to determine the potential use or demand for these services at the local school district level? If so, when were they conducted and what were the results of the surveys?
- o What are the actual goals of the project; provide quality education via distance learning, better prepared students measured through reduced remediation rates, improve high school graduation rates, increase teacher professional development?
- o What measurements will be used to determine if OPI is successful in meeting the goals of the project?
- o What is OPI's role in the project? Will the 14 percent indirect cost rate be charged to the appropriation?
- o What is the MUS' role in the project?

**LFD
ISSUE
(Cont.)**

- What is the rationale for including the project in OPI's budget rather than MUS's budget?
- How many schools are currently using unlicensed teachers to provide core classes? How else are Montana students denied equitable access to core classes?
- What are the ongoing costs for this proposal in FY 2012 and FY 2013?

The legislature may also wish to consider if a restriction should be placed on the appropriation in the 2011 biennium.

Option: Request the Governor's Office, OPI, and MUS provide additional information on this proposal to enhance the legislature's understanding.

DP 26 - Student Assessment - The Governor's Office is requesting to transfer \$325,000 previously appropriated for the norm-reference test (NRT) student assessment, commonly known as the Iowa Basics, to college entrance exams for high school juniors. The NRT, formerly in administrative rules of the Board of Public Education for the accreditation of schools, is no longer required due to changes implemented in federal No Child Left Behind legislation. These funds could be dedicated to support the cost incurred for students in their junior year in high school to take a national, curriculum-based college entrance exam. Consistency in high school assessments would facilitate the state's ability to better understand high school course taking patterns. Information generated from the tests could allow the Board of Education to align high school graduation requirements with college admission requirements and reduce the need for remedial course taking in college.

**LFD
ISSUE**

Proposal not part of the BPE's policy as articulated in OPI's budget proposals

The Board of Public Education is constitutionally charged with the general supervision of the public education system. OPI is administratively attached to BPE. BPE sets the policies for the state's public education system and OPI is charged with carrying out those policies. While the BPE has articulated its support of developing a K-12 writing assessment through endorsement of OPI's initiative to implement a statewide writing assessment at the elementary and secondary level, a discussion in regard to this proposal has not occurred. This proposal was not included in OPI's budget submission to the Governor's Office.

To ensure the entity charged by the constitution with the general supervision of the public education system is able to provide input to the legislature on the policy decision, the legislature may wish to request that BPE provide its perspective on this proposal and its prioritization within BPE overall long range planning for the education system.

DP 6101 - Fixed Cost Workers Comp Management Program Allocate - The Workers' Compensation Management Program at the Department of Administration was funded by the 2007 Legislature with a one-time-only (OTO) general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Program Description

OPI Indirect Cost Pool

The following table summarizes the total executive budget proposal for this program by year.

OPI Indirect Cost Pool - Proposed Budget					
	2008	FY 2010	FY 2010	FY 2011	FY 2011
	Actual Base	Adjustments	Total	Adjustments	Total
FTE	22.15	22.15	22.15	22.15	22.15
61000 Personal Services	\$1,276,828	\$119	\$1,276,947	\$2,794	\$1,279,622
62000 Operating Expenses	824,516	221,840	1,046,356	133,981	958,497
Total Costs	\$2,101,344	\$221,959	\$2,323,303	\$136,775	\$2,238,119

The OPI Indirect Cost Pool is an internal service fund used to allocate various centralized costs such as payroll, accounting, or budgeting to all OPI's state and federally funded programs using a pre-approved indirect cost rate.

Funding

OPI Indirect Cost Pool is funded entirely with internal service type proprietary funds. Because the proprietary funds do not require an appropriation, they are not typically included in appropriation tables. Instead, the legislature approves the fees and charges that support the revenues for the program. The fees and charges approved in the general appropriations act are the maximum fees and charges that may be charged in the biennium.

The figure shows estimated funding sources for payments made by the programs charged indirect cost allocations for the base and the 2011 biennium.

Estimated Funding For Payments to the OPI Indirect Cost Pool			
	Base	Proposed	Proposed
Payment Funding	FY 2008	FY 2010	FY 2011
General fund	\$769,011	\$1,112,208	\$1,112,208
State special revenue fund	20,079	27,042	27,042
Federal special revenue fund	851,314	1,185,750	1,185,750
Total Payments	\$1,640,404	\$2,325,000	\$2,325,000

The appropriations in the State Level Activities Program budgets that pay the indirect cost rate fees should equal the amount of the revenues in the OPI Indirect Cost Pool which pays for the indirect costs. State Level Activities Program budgets currently do not correspond to the proposed rates for the OPI Indirect Cost Pool Program. See LFD Issue under Program Narrative. If rates are changed from those proposed, adjustments to the agency budgets would be needed to provide alignment with decisions for this program.

Program Narrative

Revenues

Indirect cost pool revenues are a function of the amount of expenditures recorded in the State Level Activities Program. Revenues are generated monthly by applying an approved indirect cost rate to the prior month's direct personal services and operating expenditures in both state and federally funded programs. In FY 2008, federal programs contributed \$858,853 towards the cost of "indirects"; while general and other state-funded programs contributed \$821,632. OPI negotiates a three year "predetermined rate" with the U.S. Department of Education. The rate is calculated in accordance with federal regulations and section 17-3-111(1), MCA. The federally approved rate for fiscal years 2008 through 2010 is 14 percent.

Expenses

Costs of OPI operations that are paid from the indirect cost pool include:

- Termination payouts (vacation/comp time/sick leave) for all staff (except the State Superintendent and her personal staff)
- Services provided to OPI by other state agencies for a fee including:
 - General liability insurance and employee bonds

- Warrant writing fees
- Human resources information fees
- Workers' comp management fee
- Legislative audit fees
- SABHRS costs
- Telephone equipment charges, network services charges, and enterprise fees
- Rent charges for common areas (bathrooms, halls, conference rooms)
- Capitol complex grounds maintenance
- OPI's share of statewide indirect costs, allocated through a Statewide Cost Allocation Plan (SWCAP) prepared by the Department of Administration
- Centralized services provided to OPI programs such as payroll, personnel, accounting, budgeting, data management, cash management, financial reporting, purchasing, word processing, mail delivery, and resource center services
- Operating costs associated with centralized services employees (22.8 FTE) are paid from the pool, including the cost of rent for space they occupy, office supplies, postage, long distance phone charges, equipment, training, travel, photocopy charges, etc.
- General-use items such as paper, FAX lines and shared equipment, and the related maintenance contracts

It should be noted that the legislative audit costs are appropriated on a biennial basis. This is the reason the expenditures for the OPI indirect cost pool are higher in the first year of the biennium.

Explanation of Rates

OPI negotiates a three year "predetermined rate" with the U.S. Department of Education every year. The rate is calculated in accordance with federal regulations and section 17-3-111, MCA. The approved rate for fiscal year 2010 is 14 percent. The proposed rate for the FY 2011 budget is 14 percent. The actual rate will be negotiated in December of FY 2009 and may be higher or lower than the budgeted rate.

The following table shows historical and anticipated future sources and uses of funds for the operation of the internal service fund that finances the OPI Indirect Cost Pool. It should be noted this table shows what is budgeted in FY 2009, FY 2010 and FY 2011.

2011 Biennium Report on Internal Service and Enterprise Funds				
	Actual FY08	Budgeted FY09	Budgeted FY 10	Budgeted FY 11
Operating Revenues:				
Nonfederal indirect cost recoveries	\$821,632	\$850,000	\$880,260	\$885,662
Federal Indirect Cost Recoveries	858,853	1,050,000	927,525	930,867
Other Operating Revenues	5,848	-	0	0
Total Operating Revenue	\$1,686,334	\$1,900,000	\$1,891,860	\$1,923,300
Operating Expenses:				
Personal Services	\$1,293,832	\$1,124,523	\$1,276,947	\$1,279,622
Other Operating Expenses	824,515	766,140	1,046,356	958,497
Benefits and Claims	73,957	-	-	-
Total Operating Expenses	\$2,192,305	\$1,890,663	\$2,323,303	\$2,238,119
Operating Income (Loss)	(505,971)	9,337	(431,443)	(314,819)
Total Net Assets- July 1 - As Restated	797,653	291,682	301,019	(130,424)
Total Net Assets - July 1 - As Restated	\$797,653	\$291,682	\$301,019	(\$130,424)
Net Assets- June 30	\$291,682	\$301,019	(\$130,424)	(\$445,243)
60 days of expenses				
(Total Operating Expenses divided by 6)	365,384	315,111	387,217	373,020
Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Actual FY 08	Actual FY 09	Budgeted FY 10	Budgeted FY 11
Unrestricted Rate	24.0%	24.0%	24.0%	
Restricted Rate	14.0%	14.0%	14.0%	14.0%
OPI's indirect cost rate is negotiated with the U.S. Department of Education every three years with federal regulations published in OMB Circular A-87, U.S. Department of Education General Administrative Requirements, and section 17-3-111, MCA. The restricted rate approved by the U.S. Department of Education for FY 2008-FY2010 is 14.0%. The restricted rate is applied to all general fund programs and to federal programs with "supplement not supplant" requirements.				
#not yet determined				

**LFD
ISSUE**

Proprietary fund income is not fully appropriated in the proposed 2011 budget for the State Level Activities Program

As shown in the table, the operating revenues budgeted in the 2011 biennium for the State Level Activities Program are insufficient to cover the costs of the budgeted expenditures in the OPI Indirect Cost Pool Program, with a \$445,000 default in net revenues. The revenues included in the proprietary fund are budgeted in the general appropriations act as indirect cost expenses for the State Level Activities Program. The operating revenues are budgeted at \$1.8 million and \$1.9 million in FY 2010 and FY 2011, respectively.

The funds budgeted in the State Level Activities Program are based on the amount of indirect costs paid in FY 2008. The actual rate approved by the U.S. Department of Education was 14.0 percent for the period. However, the revenues of \$1.7 million in FY 2008 were based on a lower indirect cost rate of approximately 11 percent. OPI used a lower rate to reduce the \$0.7 million fund balance in the OPI Indirect Cost Pool as recommended by federal auditors. However, it did not propose an adjustment to the costs of the indirect expenses paid to the proprietary fund at the higher level anticipated in the 2011 biennium.

As shown in the table above, the effect of the lower revenues on the fund balance over the 2009 and 2011 biennia is to end the 2011 biennium with a negative fund balance of \$445,243.

**LFD
ISSUE (CONT.)**

The federal indirect cost rate is approved at 14.0 percent in FY 2010. If the indirect cost rate is not sufficient for OPI to fully recover the costs, a new indirect cost rate can be requested prior to FY 2011. A new rate will be approved for the next three years beginning in FY 2011. The new rate should be sufficient to recover:

- Actual indirect costs related to the federal and state programs for the three years it will be in effect
- If needed, under-recovered costs from FY 2010

A higher rate is not included in the executive proposed budget in either FY 2010 or FY 2011. As discussed above, the indirect cost recovery charges approved in the general appropriations act are the maximum amounts that may be charged in the biennium. It appears the fees will be insufficient to cover the costs of the OPI Indirect Cost Pool in the 2011 biennium.

The legislature may wish to include appropriations for indirect cost expenditures calculated at the 14 percent rate in FY 2010 and the proposed new indirect cost rate in FY 2011 in the State Level Activities Program to ensure costs for the OPI Indirect Cost Pool Program are supported by revenues in the 2011 biennium. The cost to fully fund the proposed rate is as follows: general fund is \$235,000 annually, state special is \$5,700 annually, and federal funds is \$174,053 annually.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on those items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative.

OPI Indirect Cost Pool - Present Law Adjustments					
		FY 2010		FY 2011	
		FTE	Costs	FTE	Costs
PL 0000	Statewide Present Law Adjustments	0.00	\$220,213	0.00	\$135,181
Total Present Law		0.00	\$220,213	0.00	\$135,181

Proprietary Rate Explanation

For the 2011 biennium the following rates are proposed in the executive budget. As discussed above, the rates would not generate revenues commensurate with the proposed costs proposed by the executive.

Advanced Drivers Education

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Driver In-Vehicle Program - Proposed Budget					
	Actual	FY 2010	FY 2010	FY 2011	FY 2011
	FY 2008 Base	Adjustments	Total	Adjustments	Total
FTE	1.68	0.00	1.68	0.00	1.68
61000 Personal Services	\$83,362	(\$2,687)	\$80,675	(\$2,648)	\$80,714
62000 Operating Expenses	47,758	941	48,699	1,054	48,812
Total Costs	\$131,120	(\$1,746)	\$129,374	(\$1,594)	\$129,526

Proprietary Program Description

The Advanced Driver Education program, also known as the Driver In-Vehicle Education (DRIVE) is a seasonal hands-on behind-the-wheel crash avoidance program. It is operated by the Health Enhancement and Safety Division of OPI at their training facility in Lewistown. The one-day and half-day refresher courses provide training to school bus drivers, driver education teachers, Montana Department of Transportation employees, ambulance drivers, and others who drive as a part of their employment. In operation since 1979, this program offers its services to employees of government services and to the general public.

Funding

DRIVE is funded entirely with proprietary funds generated through workshop fees and track rental of the Lewistown facility. Because the proprietary funds do not require an appropriation, they are not typically included in appropriation tables. Instead, the legislature approves the fees and charges that support the revenues for the program. The fees and charges approved in the general appropriations act are the maximum fees and charges that may be changed to the state in the biennium.

The appropriations in agency budgets that pay the fees are adjusted to align with the fee changes. User agency budgets currently correspond to the proposed rates for the DRIVE Program, so if rates are changed from those proposed, adjustments to user agency budgets would be needed to maintain alignment with decisions for this program.

Program Narrative

Revenues

Revenues are generated from workshop fees collected from participants in the program and from other track users for the use of the facility. Typically the program serves 450-550 participants a session. The current fee is \$260 per person for a full-day workshop and \$155 for a half-day.

Expenses

Cost drivers for fees include instructor expenses (includes salaries, travel and per diem; vehicle maintenance and operating expenses (fuel), classroom and track supplies, track lease, program advertising, and administration (planning, scheduling, registrations, advertising, professional development of staff, support services, etc.). Continued increases in fuel costs in FY 2008 and track repairs consumed the revenue projected to support periodic capital and maintenance costs. Fuel and transportation expenses are anticipated to continue to increase as increased energy costs filter into the base price of other supplies, materials, and equipment. Needs for improvements to classroom and restroom facilities are pending. In addition to operating expenses during non-revenue months, the program also incurs periodic (every 2 - 5 years) expenditures for replacement of vehicles and facility maintenance/improvement. Payment of these services requires accumulation and carryover of revenues from year to year in an amount of approximately 10 - 20 percent of its annual budget.

Explanation of Rates

Workshop rates are fixed rates evaluated against workshop personnel expenses, operating expenses, and depreciated vehicle costs on a seasonal basis to ensure workshop operating expenses are covered. Inflationary influences are anticipated to ensure that inflation does not leave the program in a deficit situation. The program works to keep workshop fees low since the potential customers such as bus drivers, volunteer firemen, and ambulance drivers have small training budgets.

The following table shows historical and anticipated future sources and uses of funds for the operation of the proprietary fund that finances the DRIVE Program.

Working Capital Discussion

This program is a summer seasonal program that operates 45 - 55 days during June, July, and August. The program typically employs four professional instructors for each workshop (10 - 11 hours per day each). A director (0.15) and a program specialist (0.125) provide administrative support during the year. Most revenue is received in April - June through pre-paid workshop registrations. Most expenses are realized June through August, with continuing administrative expenses during the remainder of the year. The program requires 30 - 45 percent of its annual budget to be carried over into the next fiscal year to cover working expenses paid out July - March.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative.

D.R.I.V.E. Program - Present Law Adjustments					
		FY 2010		FY 2011	
		FTE	Costs	FTE	Costs
PL 0000	Statewide Present Law Adjustments	0.00	(\$1,746)	0.00	(\$1,594)
Total Present Law		0.00	(\$1,746)	0.00	(\$1,594)

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

2009 Biennium Report on Internal Service and Enterprise Funds				
	Actual FY08	Budgeted FY09	Budgeted FY 10	Budgeted FY 11
Operating Revenues:				
Fee revenue				
From Fee A - Full Day Workshop	\$155,000	\$160,000	\$160,000	\$160,000
Half Day Refresher Workshop	8,000	8,000	0	0
From Fee B - Daily Track Rentals, Exclusive	2,750	2,750	0	0
From Fee C - Periodic or Extended Track Rental, Non-Exclu.	0	0	0	0
From Fee D - Custom Training/Workshop	0	0	0	0
Total Operating Revenue	<u>\$166,477</u>	<u>\$170,750</u>	<u>\$160,000</u>	<u>\$160,000</u>
Operating Expenses:				
Personal Services	\$91,553	\$77,456	\$80,675	\$80,714
Other Operating Expenses	49,934	89,384	48,699	48,812
Benefits and Claims	1,869	0	0	0
Total Operating Expenses	<u>\$143,356</u>	<u>\$166,840</u>	<u>\$129,374</u>	<u>\$129,526</u>
Operating Income (Loss)	<u>\$23,121</u>	<u>\$3,910</u>	<u>\$30,626</u>	<u>\$30,474</u>
Total Net Assets- July 1 - As Restated	\$40,868	\$63,989	\$67,899	\$98,525
Prior Period Adjustments	0	0		
Cumulative effect of account change	0	0		
Total Net Assets - July 1 - As Restated	<u>40,868</u>	<u>63,989</u>	<u>67,899</u>	<u>98,525</u>
Net Assets- June 30	<u>\$63,989</u>	<u>\$67,899</u>	<u>\$98,525</u>	<u>\$128,999</u>
60 days operating capital	23,893	27,807	21,562	21,588

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
Operating Expenses	0	3,998	0	0	3,998	0	(3,998)	(100.00%)
Local Assistance	633,539,284	655,835,265	672,949,164	691,021,920	1,289,374,549	1,363,971,084	74,596,535	5.79%
Grants	126,371,496	159,608,650	135,404,444	138,229,444	285,980,146	273,633,888	(12,346,258)	(4.32%)
Total Costs	\$759,910,780	\$815,447,913	\$808,353,608	\$829,251,364	\$1,575,358,693	\$1,637,604,972	\$62,246,279	3.95%
General Fund	633,561,264	655,863,286	673,074,164	691,146,920	1,289,424,550	1,364,221,084	74,796,534	5.80%
State Special	750,000	750,000	750,000	750,000	1,500,000	1,500,000	0	0.00%
Federal Special	125,599,516	158,834,627	134,529,444	137,354,444	284,434,143	271,883,888	(12,550,255)	(4.41%)
Total Funds	\$759,910,780	\$815,447,913	\$808,353,608	\$829,251,364	\$1,575,358,693	\$1,637,604,972	\$62,246,279	3.95%

Program Description

The Local Education Activities program is used by OPI to distribute various state and federal funds to local education agencies.

Program Highlights

Office of Public Instruction – Distribution to Schools Major Budget Highlights

The executive proposes an increase in OPI's distribution to schools of 3.95 percent from the 2009 biennium to the 2011 biennium

- ◆ OPI's budget for distribution to schools would increase by \$117.8 million during the 2009 biennium when compared with base expenditures in FY 2008. Of this amount, \$97.1 million is an increase in state general fund and \$ 20.7 million is an increase in federal funds
- ◆ In the general fund the executive proposes to:
 - Increase present law BASE aid by \$68.5 million in the 2011 biennium, a combination of lower ANB and raising the basic and per-ANB entitlements by 3 percent per year, a small adjustment to the Indian education for all payment, and a small increase in the at risk payment.
 - Provide no adjustments to the achievement gap payment as the population of Indian children is expected to remain stable.
 - Provide no adjustment to the present law quality educator payment because the number of educators is also expected to remain stable.
 - Increase state general fund for BASE aid by \$4.0 million due to lower common school revenues from state lands
 - Increase present law categorical components of school aid by \$7.1 million, consisting of:
 - Special Education, \$2.5 million
 - Transportation aid, \$0.5 million
 - HB 124 Block Grants, \$1.9 million
 - School facilities reimbursement, \$1.6 million
 - Assorted smaller categorical spending, \$0.6 million
 - Add new proposals in the amount of \$17.5 million general fund, consisting of:
 - School foods equip/facility mini grants-biennial/OTO - One-time-only funds of \$150,000 to make competitive

- grants available for schools to provide more or improved breakfast or lunch programs
- Increase Special education by 3 percent per year, \$4.5 million biennial.
- Increase the quality educator payment by \$100 per year, \$3.9 million biennial
- Institute a resource sharing program, \$100,000 per year, to increase sharing of resources between small districts
- Use the new “streambed rents” to provide an inflow of money into the school facility improvement account, instead of using the money to increase BASE aid, \$8.7 million biennial
- Use the timber revenue from state lands and deposit this as well into the facility improvement account instead of distributing this money directly to school districts for technology improvements as under present law
- The executive proposes to increase present law federal aid by \$20.7 million during the 2011 biennium primarily for school foods, Title 1 aid to the disadvantaged, school improvement, and special education

Major LFD Issues

- ◆ Present Law Adjustment Issues
 - The executive proposes increasing BASE aid to school districts by 3 percent per year. Actual inflation as calculated in 20-9-326, MCA, is 3.22 percent for 2010 and 4.03 percent for FY 2011
 - The executive does not propose adjusting the Indian education for all payment, the at-risk payment, or the achievement gap payment
 - The executive proposes an increase in general fund for BASE aid of \$4.0 million that reflects the executive’s estimates of lower common school revenues. The Revenue and Transportation Committee adopted common school revenues that were \$5 million higher than those estimated by the executive
 - The executive proposes an increase of \$1.6 million in the school facilities reimbursement payment, but if Billings passes a new building bond, the school facilities reimbursement may have to be prorated among all the eligible districts
- ◆ New Proposal Issues
 - The executive’s proposal to use the new streambed rents (\$8.7 million) for facility improvements increases state general fund by a like amount. If the new money is used for BASE aid, general fund would be lower, or new BASE aid could be added
 - The executive’s estimate of streambed rents exceeds the estimates adopted by the RTIC by \$0.2 million for the 2011 biennium
 - The executive proposes using timber revenue from state lands to provide approximately \$5.6 million as an inflow of money into the facility improvement account. This money is currently distributed to all districts to purchase and maintain information technology in schools
- ◆ Tax Policy Issue – The executive does not take into account the impact of reappraisal on state GTB aid and local district property taxes beginning in FY 2010

Program Narrative**Goal 1**

- Make timely and correct payments of state and federal aid to Montana's local education agencies
- Assist school districts and other subgrantees of state and federal funds to achieve the goals and objectives of the grant programs and to comply with the grant requirements
- To use electronic funds transfer as a cost-efficient, secure and trackable means of distributing funds to schools, counties and other education service providers
- Use OPI's web-enabled electronic grants management system to support the state and federal grant management process, including the allocation of funds, the application process, amendments to grant applications, payments to grant recipients, reporting to the grantor, and close-out reports.

**LFD
ISSUE**

OPI does not provide any indicators by which to measure the achievement of the second subgoal.

What happens when the goals and objectives of the grant programs are not met by school districts, or the grant requirements are not complied with? Will OPI publish a list of those grant recipients that do not meet the goals and objectives?

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Local Education Activities						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 633,561,264	83.4%	\$ 673,074,164	83.3%	\$ 691,146,920	83.3%
01100 General Fund	633,561,264	83.4%	673,074,164	83.3%	691,146,920	83.3%
02000 Total State Special Funds	750,000	0.1%	750,000	0.1%	750,000	0.1%
02402 Traffic & Safety Education	750,000	0.1%	750,000	0.1%	750,000	0.1%
03000 Total Federal Special Funds	125,599,516	16.5%	134,529,444	16.6%	137,354,444	16.6%
03170 Grant Clearance Discretionary	125,599,516	16.5%	134,529,444	16.6%	137,354,444	16.6%
Grand Total	\$ 759,910,780	100.0%	\$ 808,353,608	100.0%	\$ 829,251,364	100.0%

The following table shows the executive's proposed funding for its proposals.

Distribution to Schools, General Fund, State Special, and Federal Funds - Executive Proposal							
Description	Base Budget 2008	PL Base Adjustments Fiscal 2010	New Proposals Fiscal 2010	Total Fiscal 2010	PL Base Adjustments Fiscal 2011	New Proposals Fiscal 2011	Total Fiscal 2011
Base Aid (General Fund & Guarantee Acct)	\$570,202,837	\$26,582,635	\$1,651,229	\$598,436,701	\$41,947,779	\$3,208,584	\$615,359,200
General Fund							
Base Aid							
Direct State Aid	\$313,092,203	\$18,737,203	\$4,078,000	\$335,907,406	\$27,599,294	\$4,627,000	\$345,318,497
GTB - School General Fund	127,482,001	8,399,771	251,229	136,133,001	12,909,977	508,584	140,900,562
GTB - School Retirement	25,761,036	1,985,049	0	27,746,085	2,967,733	0	28,728,769
Indian Ed for All	3,063,152	-43,499	0	3,019,653	-62,336	0	3,000,816
Close Achievement Gap	3,293,800	0	0	3,293,800	0	0	3,293,800
Quality Educator	38,521,876	0	1,300,000	39,821,876	0	2,600,000	41,121,876
At Risk Payment (Appropriated Separately)	4,999,891	109	0	5,000,000	109	0	5,000,000
Resource Sharing	0	0	100,000	100,000	0	100,000	100,000
School District Audits	185,880	0	0	185,880	0	0	185,880
Special Education	40,413,567	1,233,764	1,249,420	42,896,751	1,233,764	2,536,322	44,183,653
Transportation	12,338,475	200,000	0	12,538,475	300,000	0	12,638,475
School Facility Reimbursement	9,744,392	775,000	0	10,519,392	775,000	0	10,519,392
Instate Treatment	787,800	187,096	0	974,896	187,096	0	974,896
Secondary Vo Ed	1,000,000	0	0	1,000,000	0	0	1,000,000
Adult Basic Ed	524,998	2	0	525,000	2	0	525,000
Gifted & Talented	246,982	3,018	0	250,000	3,018	0	250,000
School Food	648,655	0	0	648,655	0	0	648,655
HB 124 Block Grants	50,979,326	777,830	0	51,757,156	1,171,185	0	52,150,511
State Tuition Payments	477,230	128,908	0	606,138	128,908	0	606,138
Health Enhancement (OTO)	0	0	150,000	150,000	0	0	0
Total General Fund	\$633,561,264	\$32,384,251	\$7,128,649	\$673,074,164	\$47,213,750	\$10,371,906	\$691,146,920
State Special Revenue							
Traffic Safety Distribution	\$750,000	\$0	\$0	\$750,000	\$0	\$0	\$750,000
Total State Special	\$750,000	\$0	\$0	\$750,000	\$0	\$0	\$750,000
Federal Special Revenue							
Federal School Foods Programs	\$24,565,933	\$2,075,000	\$0	\$26,640,933	\$2,850,000	\$0	\$27,415,933
ESEA - Title I - Assistance to Disadvantaged	34,882,098	5,000,000	0	39,882,098	6,500,000	0	41,382,098
ESEA - Title I - Improvement	1,226,188	1,250,000	0	2,476,188	1,500,000	0	2,726,188
ESEA - Title I - Migrant Education	731,756	0	0	731,756	0	0	731,756
ESEA - Title I - Neglected & Delinquent	91,361	0	0	91,361	0	0	91,361
ESEA - Title I - Part B - Even Start	490,425	0	0	490,425	0	0	490,425
ESEA Title II - Teacher & Principal Training	12,559,983	0	0	12,559,983	0	0	12,559,983
ESEA Title II - Math & Science	693,245	0	0	693,245	0	0	693,245
ESEA Title II - Technology	1,393,979	0	0	1,393,979	0	0	1,393,979
ESEA Title III-Language Acquisition	318,973	0	0	318,973	0	0	318,973
ESEA Title IV - 21 st Cent Schools	4,328,339	0	0	4,328,339	0	0	4,328,339
ESEA Title IV - Drug Free Schools	1,105,486	0	0	1,105,486	0	0	1,105,486
ESEA Title V - Innovative Education	403,828	(403,828)	0	0	(403,828)	0	0
IDEA - Children w/ Disabilities	33,872,492	750,000	0	34,622,492	1,000,000	0	34,872,492
IDEA - Preschool	1,220,207	0	0	1,220,207	0	0	1,220,207
IDEA - SIG	171,174	0	0	171,174	0	0	171,174
Adult Basic Education	1,156,305	0	0	1,156,305	0	0	1,156,305
Carl Perkins	2,559,872	0	0	2,559,872	0	0	2,559,872
Carl Perkins State Leadership	89,000	0	0	89,000	0	0	89,000
Learn and Serve Montana	102,013	0	0	102,013	0	0	102,013
Reading First	1,794,564	700,000	0	2,494,564	750,000	0	2,544,564
Advanced Placement Fee Reimbursement	96,222	0	0	96,222	0	0	96,222
Character Education	680,908	0	0	680,908	0	0	680,908
Christa McAuliffe	9,431	0	0	9,431	0	0	9,431
Comprehensive School Reform	441,244	(441,244)	0	0	(441,244)	0	0
Education of Homeless Children	164,530	0	0	164,530	0	0	164,530
Foreign Language Assistance	118,444	0	0	118,444	0	0	118,444
Local Wellness Program	4,000	0	0	4,000	0	0	4,000
Migrant Incentive	173,655	0	0	173,655	0	0	173,655
Rural and Low Income Schools	136,859	0	0	136,859	0	0	136,859
Homeland Security	17,002	0	0	17,002	0	0	17,002
Total Federal Special	\$125,599,516	\$8,929,928	\$0	\$134,529,444	\$11,754,928	\$0	\$137,354,444
Funding							
Total General Fund	\$633,561,264	\$32,384,251	\$7,128,649	\$673,074,164	\$47,213,750	\$10,371,906	\$691,146,920
Total State Special	750,000	0	0	750,000	0	0	750,000
Total Federal Special	125,599,516	8,929,928	0	134,529,444	11,754,928	0	137,354,444
Total Distribution to Public Schools	\$759,910,780	\$41,314,179	\$7,128,649	\$808,353,608	\$58,968,678	\$10,371,906	\$829,251,364
Statutory Appropriations							
Guarantee Account - Interest & Income	\$53,802,998	(\$2,495,998)	(\$4,078,000)	\$47,229,000	(\$1,466,998)	(\$4,627,000)	\$47,709,000
Guarantee Account - Timber	895,804	1,826,196	0	2,722,000	-95,804	0	800,000
Total Statutory	\$54,698,802	-\$669,802	-\$4,078,000	\$49,951,000	-\$1,562,802	-\$4,627,000	\$48,509,000

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	633,561,264	633,561,264	1,267,122,528	92.88%	759,910,780	759,910,780	1,519,821,560	92.81%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	32,384,251	47,213,750	79,598,001	5.83%	41,314,179	58,968,678	100,282,857	6.12%
New Proposals	7,128,649	10,371,906	17,500,555	1.28%	7,128,649	10,371,906	17,500,555	1.07%
Total Budget	\$673,074,164	\$691,146,920	\$1,364,221,084		\$808,353,608	\$829,251,364	\$1,637,604,972	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - K-12 BASE Aid - Present Law	0.00	26,582,635	0	0	26,582,635	0.00	41,947,779	0	0	41,947,779
DP 2 - Special Education-Maintain Fiscal Effort	0.00	1,233,764	0	0	1,233,764	0.00	1,233,764	0	0	1,233,764
DP 4 - Pupil Transportation - PL	0.00	200,000	0	0	200,000	0.00	300,000	0	0	300,000
DP 10 - School Block Grants - HB 124	0.00	777,830	0	0	777,830	0.00	1,171,185	0	0	1,171,185
DP 11 - School Facilities Reimbursement	0.00	775,000	0	0	775,000	0.00	775,000	0	0	775,000
DP 18 - Biennial Appropriations - Program 09	0.00	319,024	0	0	319,024	0.00	319,024	0	0	319,024
DP 20 - Federal Grant Award Adj - Program 09	0.00	0	0	8,929,928	8,929,928	0.00	0	0	11,754,928	11,754,928
DP 100 - Guarantee Account Adjustment	0.00	2,495,998	0	0	2,495,998	0.00	1,466,998	0	0	1,466,998
Total Other Present Law Adjustments	0.00	\$32,384,251	\$0	\$8,929,928	\$41,314,179	0.00	\$47,213,750	\$0	\$11,754,928	\$58,968,678
Grand Total All Present Law Adjustments					\$41,314,179					\$58,968,678

Program Personal Services Narrative

This program does not have any associated FTE. See Program 6 for this narrative.

The following table shows all the proposals requested by the executive for the K-12 distribution to schools program.

Appropriations for Distribution to Schools - HB 2 - 2009 Session
Legislative Action for K-12 Distribution to Schools - 2011 Biennium
By Fund and Decision Package Number
Program 09

December 9, 2008

Present Law Adjustments		Fiscal 2010	Fiscal 2011	Biennium
Decision Package	General Fund			
	Base Aid Changes			
PL01	Inflation Adjustment (3.0% - FY10; 3.0% FY11)	\$26,626,025	\$42,010,006	\$68,636,031
PL100	Adjustment for lower Common School Revenue	2,495,998	1,466,998	3,962,996
PL01	At Risk Payment	109	109	218
PL01	Indian Ed For All - Fewer Students	(43,499)	(62,336)	(105,835)
	Total Base Aid Changes	\$29,078,633	\$43,414,777	\$72,493,410
PL02	Special Education	1,233,764	1,233,764	2,467,528
PL04	Transportation	200,000	300,000	500,000
PL10	County and District HB 124 Block Grants - 0.76 percent per year	777,830	1,171,185	1,949,015
PL11	School Facilities Reimbursement	775,000	775,000	1,550,000
PL18	Other Biennial	319,024	319,024	638,048
	Total General Fund	\$32,384,251	\$47,213,750	\$79,598,001
PL32	Federal Increases	\$8,929,928	\$11,754,928	\$20,684,856
	Total Federal	\$8,929,928	\$11,754,928	\$20,684,856
	Total Present Law Adjustments	\$41,314,179	\$58,968,678	\$100,282,857
New Proposals		Fiscal 2008	Fiscal 2009	Biennium
Decision Package	General Fund			
	Base Aid Changes			
NP05	Base Aid Increase due to Increase in Special Ed	\$251,229	\$508,584	\$759,813
NP28	Increase Quality Educator Payment from \$3,042 to \$3,142 & \$3,242	1,300,000	2,600,000	3,900,000
NP99	Quality Schools Resource Sharing	100,000	100,000	200,000
NP101	Quality School Facility Program - Divert Streambed Money	4,078,000	4,627,000	8,705,000
	Total Base Aid Changes	5,729,229	7,835,584	13,564,813
NP05	Increase Special Ed by 3 percent per Year	1,249,420	2,536,322	3,785,742
NP03	School Foods Equipment/Facility Mini Grants - OTO	150,000	0	150,000
	Total Other Changes in Distribution to Schools	1,399,420	2,536,322	3,935,742
	Total General Fund - New Proposals	\$7,128,649	\$10,371,906	\$17,500,555
	Net Change General Fund Over FY08 Base (Present Law + New Proposals)	\$39,512,900	\$57,585,656	\$97,098,556
	Net Change All Funds Over FY08 Base	\$48,442,828	\$69,340,584	\$117,783,412
	State Spending in the 2008 general fund base budget			\$633,561,264
	BASE Aid paid for out of the Guarantee Fund (Interest and Income on State Lands)			\$53,802,998
	Total State Spending on K-12 - FY2008			\$687,364,262

DP 1 - K-12 BASE Aid - Present Law - This request is for \$68.53 million for the present law adjustment of K-12 BASE Aid in the 2011 biennium. Of this total, \$16.5 million is to bring the FY 2008 expenditure base up to the FY 2009 funding rates. The remaining \$52.03 million is to increase the basic and per-ANB entitlements by 3 percent each year in accordance with 20-9-326, MCA, which requires annual inflation-related adjustments to the basic and per-ANB entitlements.

**LFD
ISSUE****Actual Inflation Higher Than Included in Executive Budget**

Section 20-9-326, MCA, requires that the executive propose that the per-ANB entitlements and the basic entitlements be adjusted upward by the smaller of 3 percent or the actual 3 year average change in the Consumer Price Index (CPI-U), lagged three years. For instance, the CPI-U calculation for FY 2010 is the average change in the CPI-U between 2004 and 2007, and for 2011 between 2005 and 2008. The actual change in the CPI-U for FY 2010 and FY 2011 is 3.22 percent and 4.03 percent respectively, and therefore following 20-9-326 requires that the executive propose an increase in the entitlements of not more than 3 percent.

If the actual inflation values had been proposed, the increase in direct state aid and guaranteed tax base aid to school districts would have been an additional \$1.2 million in FY 2010 and \$6.9 million in FY 2011. The legislature is not bound by 20-9-326.

**LFD
COMMENT**

The estimates of present law BASE aid are based on predictions of Average Number Belonging (ANB) in FY 2010 and FY 2011. ANB is a measure of enrollments in public schools. The executive assumed that statewide ANB in FY 2010 would drop by 0.6 percent and in FY 2011 by 0.17 percent. These are preliminary estimates. The actual ANB for 2010 will be available in March 2009 and at that time adjustments to the present BASE aid for both years of the 2011 biennium will be made. The historical and estimated future ANB are shown in the following table.

Average Number Belonging (ANB) in Montana Schools								
	Fiscal Year	K-6	Percent Change	7-8	Percent Change	9-12	Percent Change	Total
Current Year ANB								
A	1996	87,502		27,195		49,043		163,740
A	1997	86,694	-0.9%	27,399	0.8%	50,586	3.1%	164,679
A	1998	85,374	-1.5%	27,068	-1.2%	51,432	1.7%	163,874
A	1999	83,030	-2.7%	26,822	-0.9%	51,885	0.9%	161,737
A	2000	81,175	-2.2%	26,556	-1.0%	52,025	0.3%	159,756
A	2001	79,854	-1.6%	26,114	-1.7%	51,507	-1.0%	157,475
A	2002	78,090	-2.2%	25,537	-2.2%	50,794	-1.4%	154,421
A	2003	76,060	-2.6%	25,080	-1.8%	50,357	-0.9%	151,497
A	2004	74,315	-2.3%	25,150	0.3%	50,003	-0.7%	149,468
A	2005	73,229	-1.5%	24,956	-0.8%	49,466	-1.1%	147,651
A	2006	71,985	-1.7%	24,540	-1.7%	49,302	-0.3%	145,827
A	2007	71,639	-0.5%	23,805	-3.0%	48,809	-1.0%	144,253
A	2008	76,118	6.3%	23,041	-3.2%	48,440	-0.8%	147,599
A	2009	77,047	1.2%	22,618	-1.8%	47,502	-1.9%	147,167
E	2010	77,696	0.8%	22,429	-0.8%	46,145	-2.9%	146,270
E	2011	78,759	1.4%	22,292	-0.6%	44,964	-2.6%	146,015
Budgeted ANB								
A	2006	73,573		25,242		50,082		148,897
A	2007	72,763	-1.1%	24,643	-2.4%	49,612	-0.9%	147,018
A	2008	76,826	5.6%	24,076	-2.3%	49,246	-0.7%	150,148
A	2009	77,753	1.2%	23,353	-3.0%	48,642	-1.2%	149,748
E	2010	77,903	0.2%	22,688	-2.8%	47,422	-2.5%	148,013
E	2011	78,495	0.8%	22,344	-1.5%	46,244	-2.5%	147,083

Beginning in fiscal 2006, budgeted ANB for each district is the larger of current year ANB and three-year averaged ANB.

Full-time kindergarten began in FY 2008

**LFD
COMMENT**

The following table shows historical and present law levels of the most important variables in the school funding formula. It provides a perspective of the executive's request compared to historical levels of the important elements in the funding formula.

School District Entitlements								
Component	FY2004 Actual	FY2005 Actual	FY2006 Actual	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Proposed	FY2011 Proposed
Bill Authorizing Entitlement Change	SB424	SB424	HB63	HB63	SB1 (SS)	SB1 (SS)	Executive	Executive
Basic (Per District) Entitlements								
Elementary	<u>\$19,456</u>	<u>\$19,859</u>	<u>\$20,275</u>	<u>\$20,718</u>	<u>\$21,290</u>	<u>\$21,922</u>	<u>22,580</u>	<u>23,257</u>
Percent Change	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%	3.0%	3.0%
High School	<u>\$216,171</u>	<u>\$220,646</u>	<u>\$225,273</u>	<u>\$230,199</u>	<u>\$236,552</u>	<u>\$243,649</u>	<u>250,958</u>	<u>258,487</u>
Percent Change	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%	3.0%	3.0%
Middle School	ed Average of Elementary and High School Basic Entitl				<u>60,275</u>	<u>62,083</u>	<u>63,945</u>	<u>65,863</u>
Percent Change					NA	3.0%	3.0%	3.0%
Per ANB Entitlements								
Elementary	<u>\$3,949</u>	<u>\$4,031</u>	<u>\$4,366</u>	<u>\$4,456</u>	<u>\$4,579</u>	<u>\$4,716</u>	<u>4,857</u>	<u>5,003</u>
Percent Change	1.1%	2.1%	8.3%	2.1%	2.8%	3.0%	3.0%	3.0%
High School	<u>\$5,262</u>	<u>\$5,371</u>	<u>\$5,584</u>	<u>\$5,704</u>	<u>\$5,861</u>	<u>\$6,037</u>	<u>6,218</u>	<u>6,405</u>
Percent Change	1.1%	2.1%	4.0%	2.1%	2.8%	3.0%	3.0%	3.0%
Per ANB Decrements								
Elementary	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20
High School	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50
Per ANB Decrement Stop Loss								
Elementary	1000	1000	1000	1000	1000	1000	1000	1000
High School	800	800	800	800	800	800	800	800
Quality Educator Payment				\$2,000	\$3,036	\$3,042	\$3,142	\$3,242
At Risk Payment				\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Indian Ed For All Payment				\$200	\$200	\$200	\$200	\$200
Indian Achievement Gap Payment				\$20	\$20	\$20	\$20	\$20
GTB Guarantee Ratio	175%	175%	175%	175%	193%	193%	193%	193%
Base Budget Components								
Direct State Aid	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%
Guaranteed tax base aid	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%
Special Ed (Millions)	\$34.9	\$36.4	\$38.5	\$39.3	\$40.4	\$41.6	\$ 42.9	\$ 44.2
Bill and session year: SB424, 2003. HB 63, 2005; HB1, 2005 SS; SB1 2007SS								

Bill and session year: SB424, 2003; HB 63, 2005; HB1, 2005 SS; SB1 2007SS

**LFD
COMMENT**

Raising the basic and per-ANB entitlements increases the GTB area of the district general fund budget. This area is funded by a combination of GTB aid from the state for those districts eligible, mandatory local property taxes and nonlevy revenue. Raising the entitlements will raise state GTB aid as well as raising mandatory district property taxes. At the increases proposed by the executive, local mandatory property taxes will increase by approximately \$4.3 million in FY 2010 and by \$8.7 million in FY 2011.

**LFD
ISSUE****Reappraisal Not Factored Into Estimates of State Aid to Schools**

In FY 2010, property in class 3 (agricultural land), class 4 (residential and commercial real estate), and class 10 (timberland) will carry new property values due to reappraisal which will be phased in over 6 years, unless mitigated by the legislature. Reappraisal unmitigated will affect the level of guaranteed tax base aid in the district general fund paid by the state to districts. On November 17, the Department of Revenue reported to the Revenue and Transportation Interim Committee that preliminary estimates are that agricultural land, timberland, residential real estate, and commercial real estate will increase between 40 and 50 %, all phased in under current law at 1/6 per year for 6 years. If these preliminary increases are subsequently confirmed, the state will save approximately \$4.5 million in GTB costs during the 2011 biennium due to reappraisal, if left unmitigated. Of course, district property taxes funding the district general fund will increase by a like amount. Reappraisal mitigation legislation will offset these state savings and transfer them to local district taxpayers.

Options

- Adjust BASE aid for the impact of reappraisal
- Adopt the executive's proposal

**LFD
ISSUE****Inflation not applied to achievement gap payment, the Indian education for all payment, and the at risk payment**

Section 20-9-326, MCA, applies the smaller of inflation or 3 percent only to the per-ANB entitlements and the basic entitlements, not to the other components of BASE aid. These other components are: 1) the quality educator payment; 2) the achievement gap payment; 3) the Indian education for all payment; and 4) the at risk payment. The executive has proposed an increase in the quality educator payment of \$100 per year in DP28 below. This represents an increase of 3.3 percent in FY 2010 and 3.2 percent in FY 2011. If the other 3 components had been increased by 3 percent this would have added \$1.0 million to BASE aid to school districts over the 2011 biennium.

Options

- Use actual inflation or 3 percent to increase the achievement gap payment, the Indian education for all payment and the at risk payment
- Adopt the executive's recommendation

DP 2 - Special Education-Maintain Fiscal Effort - Federal special education law requires each state that receives Individuals with Disabilities Education Act Part B funds to maintain their fiscal effort from year to year. The Office of Public Instruction requests \$1,233,764 for each year of the 2011 biennium to maintain fiscal effort.

DP 4 - Pupil Transportation - PL - The present law adjustment requested for pupil transportation for the formula-driven state appropriation increases by \$200,000 in FY 2010 and \$300,000 in FY 2011 over base year FY 2008 due to higher mileages traveled. This amount is matched by county property taxes.

**LFD
COMMENT**

School districts spent \$61.1 million in FY 2007 on transportation. Of this amount approximately \$12.5 million came from the state and \$12.5 million came from the county transportation fund, with the rest coming from district taxpayers. The state's share is in statute and is a schedule of rates per mile depending on bus size. These rates per mile times the number of miles driven during the school year for school to home transportation determine how much the state owes to school districts. These rates were last changed in FY 2004.

DP 10 - School Block Grants - HB 124 - State law (20-9-630 and 632, MCA) provides for an annual 0.76 percent increase in the county transportation and school district block grants. The FY 2008 base is \$50,979,326. This is a request for a biennial appropriation increase of \$777,830 in FY 2010 and \$1,171,185 in FY 2011.

LFD COMMENT

These monies were first distributed to districts in FY 2002 as directed by HB 124 in the 2001 session. They are distributed based on two factors: 1) as replacement money for the vehicle tax revenue that HB 124 took away from school districts and deposited in the state general fund; and 2) as replacement money for property tax reimbursements that were instituted in the bills that cut property taxes in the 1999 session. Approximately one-half of the total block grants are due to property tax cut reimbursements. The property tax reimbursements are disqualifying because they are distributed according to where the property was located at the time of the tax cuts, not where students are located today.

DP 11 - School Facilities Reimbursement - Montana promotes safe school facilities and a measure of taxpayer fairness by providing school facilities reimbursement payments to low-wealth school districts with general obligation bonds. State payments are calculated using statutory formulas. Each year new districts may become eligible for these payments. HB 2 appropriated \$21,018,074 (biennial) for the 2009 biennium. This request for an additional \$775,000 per year is a biennial appropriation.

LFD ISSUE

Amount Requested May Be Short If Billings Passes a Bond Election in the 2011 Biennium

State law requires the state to participate in the funding of debt service on school bonds that have been passed by the voters in eligible districts. The state school facilities reimbursement distributes state aid to districts based on the level of this entitlement and based on the wealth of the district as measured by taxable value per Average Number Belonging (ANB). ANB is a measure of the enrollment in a district.

The entitlement for debt service for an elementary is \$300 per ANB, for middle schools \$370 per ANB, and for high schools \$450 per ANB. Once this entitlement is calculated, state aid is determined by a guaranteed tax base aid formula in which a district is eligible for GTB aid if its taxable value per ANB is below 140 percent of the statewide average taxable value per ANB.

The amount of the reimbursement statewide relative to the total statewide amount of debt service determines whether the reimbursement is sufficient for the eligible districts. In some years, the state facilities reimbursement has not been sufficient to pay reimbursement for 100 percent of all eligible bond issues. In those years the state reimbursement to all districts was prorated.

It is possible that a major district, Billings, will request that its voters pass a building bond levy in the coming year. If it passes, the executive's request for an increase in the state facilities reimbursement will be approximately \$900,000 short per year, which will cause proration to occur.

Options

- Increase appropriation request by \$900,000 per year, or
- Approve appropriation request of executive.

DP 18 - Biennial Appropriations - Program 09 - This present law adjustment establishes biennial appropriations in each year at half of the amount appropriated for the 2009 biennium. The biennial appropriations include: 1) Instate treatment base adjusted \$187,096 per year to \$974,896 per year; 2) adult basic education base adjusted \$2 per year to \$525,000 per year; 3) gifted and talented base adjusted \$3,018 per year to \$500,000 per year; and 4) state tuition base adjusted \$128,908 per year to \$606,138 per year.

DP 20 - Federal Grant Award Adj - Program 09 - This biennial appropriation is to adjust federal spending authority in OPI Program 09 - Local Education Activities for anticipated increases and decreases in federal funding. These funds are distributed by OPI to school districts and other local education agencies. The adjustment is \$8,929,928 in FY 2010 and \$11,547,928 in FY 2011.

Federal Grant Awards Present Law Adjustments			
Programs	Base 2008	Increase / Decrease	
		Fiscal 2010	Fiscal 2011
Breakfast	\$4,976,970	\$500,000	\$750,000
Lunch/Snacks	18,825,069	1,500,000	2,000,000
Summer Foods	763,893	75,000	100,000
Title I, Part A Low Income	1,226,188	1,250,000	1,500,000
ESEA - Title I - Improvement	34,882,098	5,000,000	6,500,000
Reading First	1,794,564	700,000	750,000
IDEA - Children w/ Disabilities	33,872,492	750,000	1,000,000
ESEA Title V -Innovative Education	403,828	(403,828)	(403,828)
Comprehensive School Reform	441,244	(441,244)	(441,244)
Total	<u>\$97,186,347</u>	<u>\$8,929,928</u>	<u>\$11,754,928</u>

DP 100 - Guarantee Account Adjustment - This request reflects an adjustment to the FY 2008 base in the guarantee account and increases general fund expenditure in the amount of \$2.5 million in FY 2010 and \$1.5 million in FY 2011. The guarantee account is a state special revenue account statutorily appropriated primarily for distribution to school districts through school equalization aid.

LFD ISSUE

Guarantee Account Revenues Estimated by Executive Do Not Reflect Revenue Estimates Adopted By Revenue and Transportation Interim Committee on November 18, 2008

On November 18, 2008, the Revenue and Transportation Interim Committee met and determined the revenue estimates for the 2011 biennium. Included in these estimates was revenue in the guarantee account available for Base aid. The revenue estimates in the guarantee account available for Base aid that were accepted by the RTIC were higher than those estimated by the Office of Budget and Program Planning. If the RTIC estimates are used, general fund expenditures in FY 2010 will need to increase by only \$136,377, not increase by \$2.5 million as proposed by the executive. For 2011, the RTIC estimates mean that required general fund expenditures will actually decrease relative to FY 2008 by \$1,162,146, not increase by \$1.5 million as proposed by the executive. This would result in general fund savings relative to the executive estimate of \$5 million over the 2011 biennium. If the executive's proposed budget was balanced, then these general fund savings could be used in another part of the budget.

Options

- o Use guarantee account revenue estimates adopted by RTIC
- o Use the executive's guarantee account revenue estimates

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				Fiscal 2011				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3 - School Foods Equip/Facility Mini Grants-Bien/OTO										
09	0.00	150,000	0	0	150,000	0.00	0	0	0	0
DP 5 - Special Education Inflation										
09	0.00	1,500,649	0	0	1,500,649	0.00	3,044,906	0	0	3,044,906
DP 28 - Quality Educator Payment										
09	0.00	1,300,000	0	0	1,300,000	0.00	2,600,000	0	0	2,600,000
DP 99 - Quality Schools Resource Sharing										
09	0.00	100,000	0	0	100,000	0.00	100,000	0	0	100,000
DP 101 - Quality School Facility Program (Requires Legislation)										
09	0.00	4,078,000	0	0	4,078,000	0.00	4,627,000	0	0	4,627,000
Total	0.00	\$7,128,649	\$0	\$0	\$7,128,649	0.00	\$10,371,906	\$0	\$0	\$10,371,906

DP 3 - School Foods Equip/Facility Mini Grants-Bien/OTO - One-time-only funds are requested to make competitive grants available for schools to provide more or improved breakfast or lunch programs. The total request is for \$150,000 for at least 30 schools to be granted up to \$5,000 each to improve facilities and/or update equipment. This request is a biennial appropriation.

DP 5 - Special Education Inflation - The budget includes an inflationary increase in the state appropriation for special education of \$4.5 million for the 2011 biennium based on the same inflationary adjustment included for basic and per ANB entitlements section 20-9-326, MCA. The inflator for each year of the biennium is 3 percent. This proposal would increase the state special education appropriation to \$42.9 million in FY 2010 and \$44.2 million in FY 2011. The estimates of increased GTB costs associated with the state special education appropriation are \$251,229 in FY 2010 and \$508,584 in FY 2011.

LFD COMMENT

The special education payment is not subject to 20-9-326, MCA, although this decision package applies the same 3 percent increase to the special education payment. Applying the same percentage increase to special education as is applied to the entitlements has been done in each of the last 3 biennia.

There is a GTB aid impact because the law allows the school districts to increase the GTB area of the district general fund by 40 percent of the special education payment. The funding for this 40 percent is more GTB aid by the state and higher district property taxes paid by the district taxpayers. The tax payer impact statewide will be approximately the same as the GTB aid impact.

DP 28 - Quality Educator Payment - This request reflects an increase in the quality educator payment of \$100 per year at a cost of \$1.3 million in FY 2010 and \$2.6 million in FY 2011. The quality educator payment distributes funding to schools for licensed professionals per 20-9-327, MCA. This request increases the quality educator payment to \$3,142 per qualified FTE in FY 2010 and \$3,242 per qualified FTE in FY 2011.

LFD COMMENT

The FY 2009 value of the quality educator payment is \$3,042 per quality educator which is defined as all certified staff (teachers, administrators, nurses, counselors, social workers, etc) working in a school district. An increase of \$100 per educator in each year of the biennium represents a 3.3 percent increase in FY 2010 and a 3.2 percent increase in FY 2011.

DP 99 - Quality Schools Resource Sharing - This request would appropriate \$100,000 each year of the 2011 biennium for OPI to establish Quality Schools Resource Sharing structure and provide grants for increased efficiencies of cooperative decision making. The goal is to multiply resources, provide more and enhanced education experiences for students, and also help reduce the pressure on local property taxes. Special Education Cooperatives are already using this

model in varying ways to include a wide range of services including teacher and administrator sharing and cooperative purchases. Montana's 427 school districts, comprising about 830 schools, could use this model to leverage school resources to reduce operating costs, while maintaining the ability for local decision making.

DP 101 - Quality School Facility Program (Requires Legislation) - This program would help schools in Montana address facility deficiencies and improve technology access. The School Facility Study was completed with appropriations from HB 1, 2005 Special Session. This new program would be managed by the Department of Commerce and operate similarly to the current Treasure State Endowment Program. Ongoing funding streams for this purpose would be the navigable waters funds and funds from timber revenues for the amount exceeding 18 million board feet. This request transfers \$14.3 million in the 2011 biennium for school facilities and technology in the future.

LFD ISSUE

Executive Proposes Saving On-going "Streambed Rents" for School Facilities Rather Than Using for Ongoing K-12 Base Aid

During the 2007 session, royalties from mineral development on state lands were diverted to a new K-12 facility improvement account. The amount of royalties diverted is expected to be \$52.4 million by the end of FY 2010. After the royalties from state lands exceeds this amount the royalties will flow into the common school trust and the facility improvement account will no longer receive any inflow.

The executive proposes to change this by depositing into the facility improvement account the revenue from "streambed rents" and revenue from timber harvests on state lands in excess of 18 million board feet. Streambed rents are revenue from an agreement reached between the state and Avista Corp over rent owed the state for the use of the streambeds on the Clark Fork River Project. In the agreement Avista agreed to pay the state \$4 million in FY 2008 and to enhance this amount by the Consumer Price Index every year until 2016, when the payments will be reviewed. The Pennsylvania Power and Light Company has not agreed to these rents for the streambeds behind its dams and is seeking relief in the Supreme Court. If the Supreme Court rules against PPL, the resulting annual inflow may be between \$6 and \$8 million. In addition there may be back rent owed by PPL.

The revenue from timber harvests on state lands in excess of 18 million board feet has traditionally been used to purchase technology for school districts. It has varied between almost nothing to around \$2 million per year. The timber money is currently distributed as the district general fund BASE budget is distributed. The executive's proposal would distribute these monies to the facility improvement account.

The executive estimates that the streambed money will amount to \$4.078 million in FY 2010 and \$4.627 million in FY 2011. However, the RTIC adopted streambed rent estimates of \$4.151 million in FY 2010 and \$4.358 million in FY 2011. Also, the executive expects timber revenues to total \$5.57 million in the 2011 biennium, nearly identical to the amount adopted by the RTIC.

At this time there are no means of distributing the money in the facility improvement account to school districts. Presumably the executive will bring forward a bill that does this. At the November Legislative Finance Committee meeting, the LFC voted to recommend that the Long Range Building Committee be the entity that determines how the money in facility improvement account is spent.

Options

- o Adopt the executive's proposal regarding the streambed money and timber money to be deposited in the facility improvement account, realizing that such action will require other legislation.
- o Don't adopt this recommendation by the executive.

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	4.00	4.00	4.00	4.00	4.00	4.00	0.00	0.00%
Personal Services	266,842	282,621	295,006	295,057	549,463	590,063	40,600	7.39%
Operating Expenses	109,214	127,254	116,753	118,832	236,468	235,585	(883)	(0.37%)
Total Costs	\$376,056	\$409,875	\$411,759	\$413,889	\$785,931	\$825,648	\$39,717	5.05%
General Fund	209,990	224,324	225,710	228,257	434,314	453,967	19,653	4.53%
State Special	166,066	185,551	186,049	185,632	351,617	371,681	20,064	5.71%
Total Funds	\$376,056	\$409,875	\$411,759	\$413,889	\$785,931	\$825,648	\$39,717	5.05%

Agency Description

Mission Statement: The Board of Public Education shall carry out its constitutional and statutory responsibility in an exemplary manner to exercise general supervision over the public school system and other such public educational institutions as may be assigned by law. In doing so, the Board will cooperate with the Governor and other elected officials, the Board of Regents, Superintendent of Public Instruction, local school boards, the education community and all Montana citizens, including its students.

The seven-member Board of Public Education (BPE), under authority of Article X, Section 9 of the Montana Constitution, exercises "general supervision over the public school system" including the School for the Deaf and Blind. This includes school accreditation, teacher certification, standardization of policies and programs, and equalization of aid distribution. According to statute, the educational program specified by the accreditation standards represents the minimum standards upon which Montana's basic system of free quality public elementary and secondary schools is built. Board accreditation is the basis for local school district eligibility for state funds. The board shares responsibility with the Board of Regents under Title 20, Chapter 2, MCA for general planning, coordination, and evaluation of the state education system.

Agency Highlights

Board of Public Education Major Budget Highlights	
<ul style="list-style-type: none"> ◆ Increases for operating costs result from higher information technology costs due to a switch from an OCHE partnership to ITSD services ◆ Retirement payout is anticipated to be over 21 percent of personal services annual budget ◆ BPE was successful with 3 of 4 performance measurement targets related to goal of setting standards for a quality education for Montana public schools ◆ A number of school districts were unsuccessful in attaining minimum standards for quality education 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ BPE needs to work with partners to develop strategies to reduce the number of schools in advice or deficiency status in relation to accreditation standards 	

Agency Discussion

BPE consolidated from two programs, the Administration Program and the Advisory Council, to a single program in FY 2008. BPE oversees two advisory councils: the Montana Council on Indian Education and the Certification Standards and Practices Advisory Council.

Non-employee travel costs for BPE board members attending meetings comprise almost 29 percent of the total operating costs for the 2009 biennium. Similar costs are included in the 2011 biennial budget. Increases in operating costs shown in the biennial comparison table reflect the changes in the method of calculating the charges for Information Technology Services Division (ITSD) services. Previously, BPE was able to partner with the Office of the Commissioner of Higher Education (OCHE) for data network services. OCHE will be moving out of a shared office location before the end of the 2009 biennium. Information technology services for BPE will then be provided by ITSD. A portion of these costs are considered a new cost to BPE.

Goals and Objectives

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

2009 Biennium Major Goals:

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 interim.

The LFC monitored BPE's goal to set standards for a quality education as defined by law. The measurable objectives (performance measures) selected for review included revise and monitor standards in the following areas:

- Complete amendments to Information Literacy/Library Media, and Technology Content and Performance Descriptor Rules by July 1, 2008, 100 percent of schools to be in compliance by July 1, 2010 as measured by the Annual Accreditation Process

Successes:

- The rules were adopted by the BPE on July 30, 2008

- Complete amendments to the Distance, Online Learning Standards by July 1, 2009. 100 percent of schools to be in compliance by July 1, 2011 as measured by the Annual Accreditation Process.

Successes:

- Amendments were adopted by the BPE September 12, 2008

- Complete amendments to Chapter 57 (Teacher Licensure Standards) by July 1, 2009. 100 percent of schools will be in compliance by July 1, 2011 as measured by the Annual Accreditation Process.

Successes:

- Amendments are scheduled to be adopted March 12-13, 2009 with a potential effective date of March 2009

- Monitor all content and performance standards. 100 percent of schools will be in compliance by the Board of Public Education's March meeting each year as measured by the Annual Accreditation Process. Schools having a regular accreditation have:

- Met applicable accreditation standards
- Appropriately endorsed and assigned licensed staff
- Adequate school programs and resources

Schools which do not meet these requirements are designated as either in advice or deficiency status depending

on the severity and duration of the deviations from the standards. Milestones set by BPE included a target of 10 percent of schools demonstrating progress towards improvement of those schools in advice status and 5 percent of schools demonstrating progress towards improvement of those schools in deficiency status.

Challenges:

- The March report to the BPE on the Annual Accreditation Process showed increases of public schools in advice or deficiency status. In FY 2007, 8 percent of all schools were in advice status and 8 percent were in deficiency status. In FY 2008, 11 percent of all schools were in advice status and 16 percent were in deficiency status. Data presented to the BPE shows that 11 percent or 88 public schools are in advice status. 8 percent of the public students enrolled are attending a school in advice status. 117 public schools or 14 percent of public schools are in deficiency status. 16 percent of total students enrolled in public schools attend a school in deficiency status.
- One of the most common reasons for either advice or deficiency status is misassigned or non-licensed teachers. Data presented to BPE indicates that 159 teachers are misassigned, the teachers are offering instructions in 396 classes out of a total of 37,643 classes taught state-wide. 48 non-licensed teachers are teaching 170 classes in public schools around the state.

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goals are:

- Ensure that all school districts successfully implement Montana’s education standards
- Ensure that Montana public schools have a highly qualified workforce

LFD
ISSUE

BPE needs to work with partners to develop strategies to reduce the number of schools in advice or deficiency status in relation to accreditation standards

Under the constitution, the BPE is charged with the general supervision of the public school system. The Superintendent (superintendent) of Public Instruction is granted general supervision of public schools and districts of the state. The superintendent recommends standards of accreditation to the BPE. BPE reviews the recommendations and adopts accreditation standards for Montana schools. BPE has worked with the superintendent and the Office of Public Instruction (OPI) to clarify the reasons behind the increasing number of schools in advice and deficiency status. BPE requested OPI identify both number of schools and students affected by deficiencies in accreditation status. In addition, OPI identified the number and types of classes which have misassigned teachers or non-licensed teachers working with students. However, as of October 2008, a defined strategy for reducing the number of schools in advice or deficiency status has not been developed by BPE and OPI. Development of strategies to reduce the number of schools in advice or deficiency status requires a continuing partnership with the Office of Public Instruction and local school district representatives for schools in advice or deficiency status.

Option:

The legislature may wish to consider requesting BPE and OPI provide a plan including additional performance measurements, milestones, timelines, obstacles, costs, and risks associated with reducing the number of schools unable to meet the minimum standards for a quality education over the 2011 biennium.

As part of its budget deliberations during the 2009 legislative session, the Legislative Finance Committee Education Subcommittee recommends the Joint Appropriation Subcommittee on Education discuss BPE’s goal to have 100 percent of public schools meeting accreditation standards.

Funding
The following table summarizes the funding for the agency, by program and source, as recommended by the Governor.

Program Funding Table							
Administration							
Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	Total General Fund	\$ 209,990	55.8%	\$ 225,710	54.8%	\$ 228,257	55.1%
	01100 General Fund	209,990	55.8%	225,710	54.8%	228,257	55.1%
02000	Total State Special Funds	166,066	44.2%	186,049	45.2%	185,632	44.9%
	02122 Advisory Council	94,517	25.1%	111,049	27.0%	110,632	26.7%
	02219 Research Fund	71,549	19.0%	75,000	18.2%	75,000	18.1%
Grand	Total	\$ 376,056	100.0%	\$ 411,759	100.0%	\$ 413,889	100.0%

BPE is funded with general fund and state special revenue collected from teacher certification fees. By statute, the Office of Public Instruction Certification/Teacher Licensure Unit is responsible for collecting fees and depositing them in two state special revenue accounts for use by BPE. The fee for teacher and specialist certificates is set by statute at \$6 per year. Of this total, \$4 of the fee is to be used for expenses of the Certification Standards and Practices Advisory Council. The remaining \$2 is used to support the Board of Public Education's constitutional and statutory duties, special projects, and research studies of the advisory council.

LFD COMMENT

Of the total \$6 teacher certification fee, \$2 goes to fund research projects. However, over the last several years the fund balance has grown. As measured on June 30, 2008, the fund balance was \$112,080. The executive proposes using approximately \$13,000 per year of fund balance to offset program costs for BPE. If revenues and expenditures remain constant, fund balance in the state special revenue account will be expended by FY 2017.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	209,990	209,990	419,980	92.51%	376,056	376,056	752,112	91.09%
Statewide PL Adjustments	8,987	9,713	18,700	4.12%	25,473	25,782	51,255	6.21%
Other PL Adjustments	1,300	1,300	2,600	0.57%	1,300	1,300	2,600	0.31%
New Proposals	5,433	7,254	12,687	2.79%	8,930	10,751	19,681	2.38%
Total Budget	\$225,710	\$228,257	\$453,967		\$411,759	\$413,889	\$825,648	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2010						Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					26,864					26,915
Inflation/Deflation					247					291
Fixed Costs					(1,638)					(1,424)
Total Statewide Present Law Adjustments					\$25,473	\$25,782				
DP 2 - Per Diem	0.00	1,300	0	0	1,300	0.00	1,300	0	0	1,300
Total Other Present Law Adjustments										
	0.00	\$1,300	\$0	\$0	\$1,300	0.00	\$1,300	\$0	\$0	\$1,300
Grand Total All Present Law Adjustments					\$26,773	\$27,082				

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market rate** – BPE estimates it will achieve a target market ratio of 88 percent, after implementing the House Bill 13 pay adjustments in October 2008, relative to the 2008 market survey.
- **Vacancy** – BPE experiences vacancies related to their administrative assistant positions due a low entry salary, which causes retention and recruitment issues. An attempt to reclassify the position was not successful. BPE applied the legislatively approved 0.6 percent discretionary pay market increase to the position to increase the salary.
- **Legislatively applied vacancy savings** – Because it employs fewer than 20.0 FTE, BPE is exempt from the legislatively applied vacancy savings.
- **Pay Changes** – as discussed above, BPE applied the 0.6 percent discretionary pay market increase and a market adjustment based on performance evaluation to their administrative assistant positions to address retention issues for the positions.
- **Retirements** – BPE anticipates 25 percent of its workforce is eligible for full retirement in the 2011 biennium

LFD COMMENT

The proposed FY 2011 personal service costs for BPE are approximately \$294,000. As of October 2008, BPE estimates the anticipated compensated absence liability for employees qualifying for full retirement in the 2011 biennium would be over 21 percent of the annual personal services budget. As discussed above, due to the small staffing levels within BPE, the agency does not generally generate large vacancy savings. Options for payment of retirement payouts would be for the agency to leave the position open for several months or obtain a transfer from the Governor's personal services contingency account to cover the costs. At this time the agency does not anticipate eligible employees will be retiring in the 2011 biennium.

DP 2 - Per Diem - The executive proposes additional funding for board related travel because two of the members are from eastern Montana.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				Fiscal 2011				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - In-State Travel										
01	0.00	1,799	0	0	1,799	0.00	3,638	0	0	3,638
DP 3 - ITSD New Services										
01	0.00	3,497	3,497	0	6,994	0.00	3,497	3,497	0	6,994
DP 6101 - Fixed Cost Workers Comp Mgmt Pgm										
01	0.00	137	0	0	137	0.00	119	0	0	119
Total	0.00	\$5,433	\$3,497	\$0	\$8,930	0.00	\$7,254	\$3,497	\$0	\$10,751

DP 1 - In-State Travel - Non-employee instate travel has increased by approximately \$3,600 from FY07 to FY08 due to two Board of Public Education members being from eastern Montana.

DP 3 - ITSD New Services - In the past, the Board of Public Education (BPE) has received network and computer services from the Office of the Commissioner of Higher Education (OCHE) as part of their rental agreement. OCHE will no longer provide those network services. Additional ITSD costs will be \$6,994 in each year in the 2011 biennium.

DP 6101 - Fixed Cost Workers Comp Mgmt Pgm - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only (OTO) general fund appropriation. For the 2011 biennium and beyond, the executive proposed program will be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	88.61	88.61	88.61	88.61	88.61	88.61	0.00	0.00%
Personal Services	4,812,010	5,416,726	5,442,017	5,448,903	10,228,736	10,890,920	662,184	6.47%
Operating Expenses	998,606	924,330	1,066,475	1,028,684	1,922,936	2,095,159	172,223	8.96%
Capital Outlay	0	0	0	0	0	0	0	n/a
Total Costs	\$5,810,616	\$6,341,056	\$6,508,492	\$6,477,587	\$12,151,672	\$12,986,079	\$834,407	6.87%
General Fund	5,300,570	5,946,429	6,023,430	5,977,886	11,246,999	12,001,316	754,317	6.71%
State Special	417,370	293,924	402,089	416,728	711,294	818,817	107,523	15.12%
Federal Special	92,676	100,703	82,973	82,973	193,379	165,946	(27,433)	(14.19%)
Total Funds	\$5,810,616	\$6,341,056	\$6,508,492	\$6,477,587	\$12,151,672	\$12,986,079	\$834,407	6.87%

Agency Description

Mission Statement: As part of Montana's educational system, the Montana School for the Deaf and the Blind is committed to promote and provide free appropriate educational opportunities statewide, for children who are deaf, hard of hearing, blind, low vision and deaf-blind ages birth to twenty-one. This comprehensive education ensures these children achieve their greatest potential for independence and success.

The Montana School for the Deaf and Blind (MSDB), located in Great Falls, operating under the authority of Title 20-8-101 through 121, MCA, is part of Montana's educational system, and under the policy and governance of the State Board of Public Education. The school is a state funded special purpose school with a residential option for children and adolescents whose hearing or sight is a barrier to receiving proper education in the public schools of the state. MSDB also provides outreach educational services and serves as a resource center for parents of deaf and blind children, as well as state public schools and organizations that serve sensory impaired children. The mission of the school is to provide students with the "building blocks" to become independent, contributing members of society.

MSDB executes its mandated duties with 84.03 FTE and four programs: administration, general services (grounds and buildings), student services (residential), and education. In FY 2006 MSDB served a total population of 2,614, an 8.1 percent increase over the 2,418 served in FY 2004. The population served includes students enrolled in the education program, individuals receiving educational and audiological evaluations, outreach programs serving families and children ages 0 to 21 and public schools, and students attending summer and weekend programs.

Agency Highlights

Montana School for the Deaf and Blind Major Budget Highlights	
♦	The executive proposes increasing the budget by \$0.9 million when compared to the 2009 biennium
♦	Present law adjustments are \$0.8 million, primarily for statewide present law adjustments
♦	\$0.1 million in new proposals for expanded services for early intervention
Major LFD Issues	
♦	Federal revenues could be increased, reducing the need for general fund
♦	The legislature may wish to consider the policy options in relation to services

- provided to visually and hearing impaired students in the Montana educational system
- ◆ MSDB does not provide specific, measurable, time-bound objectives for its 2011 biennial goals

Agency Discussion

The executive proposes overall increases of almost \$0.9 million when compared with the 2009 biennium. General fund support for MSDB is 6.9 percent higher in the 2011 biennium. The majority of the increases are the result of statewide present law adjustments for personal services costs. Both state special revenues derived from the state trust income account and federal funds are decreased in the 2011 biennium.

Goals and Objectives

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Agency Market** – MSDB's agent target market ratio for the 2011 biennium under the 2008 market survey is 85 percent for entry and 100 percent within five years of employment.
- **Obstacles** – The main obstacles identified by MSDB is funding the personal services costs

Funding

The following table summarize for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in the individual program narratives that follow.

Total Agency Funding 2011 Biennium Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
01 Administration Program	\$ 953,040	\$ 7,690	\$ -	\$ 960,730	7.40%
02 General Services	1,081,249	-	-	1,081,249	8.33%
03 Student Services	2,618,702	-	38,320	2,657,022	20.46%
04 Education	7,348,325	811,127	127,626	8,287,078	63.82%
Grand Total	<u>\$ 12,001,316</u>	<u>\$ 818,817</u>	<u>\$ 165,946</u>	<u>\$ 12,986,079</u>	<u>100.00%</u>

MSDB's programs are funded primarily with general fund, augmented by federal funding from the Individuals with Disabilities Education Act and the school lunch program. It also receives transfers from the School Trust Income and Interest account of about \$620,000 over the 2011 biennium. The executive proposes appropriations from these transfers as part of the state special revenue fund support for MSDB.

Statutory Appropriations

The figure shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The figure is provided so that the legislature can get a more complete picture of agency operations and associated policy.

Statutory Appropriations Montana School for the Deaf and Blind					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<i>Direct bearing on State agency operations</i>					
Tuition payments for out of state residents	20-8-107	SSR	\$93,348	\$93,368	\$93,368

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

The state special revenues statutorily appropriated to the MSDB are derived from tuition payments for out of state residents attending the school.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	5,300,570	5,300,570	10,601,140	88.33%	5,810,616	5,810,616	11,621,232	89.49%
Statewide PL Adjustments	694,595	649,442	1,344,037	11.20%	601,814	571,300	1,173,114	9.03%
Other PL Adjustments	(20,856)	(20,730)	(41,586)	(0.35%)	(20,856)	(20,730)	(41,586)	(0.32%)
New Proposals	49,121	48,604	97,725	0.81%	116,918	116,401	233,319	1.80%
Total Budget	\$6,023,430	\$5,977,886	\$12,001,316		\$6,508,492	\$6,477,587	\$12,986,079	

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	5.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00%
Personal Services	321,057	323,545	328,168	329,127	644,602	657,295	12,693	1.97%
Operating Expenses	149,004	129,948	171,354	132,081	278,952	303,435	24,483	8.78%
Total Costs	\$470,061	\$453,493	\$499,522	\$461,208	\$923,554	\$960,730	\$37,176	4.03%
General Fund	467,901	451,333	495,771	457,269	919,234	953,040	33,806	3.68%
State Special	2,160	2,160	3,751	3,939	4,320	7,690	3,370	78.01%
Total Funds	\$470,061	\$453,493	\$499,522	\$461,208	\$923,554	\$960,730	\$37,176	4.03%

Program Description

The Administration Program staff provides purchasing, accounting, personnel functions, and management of business affairs for the school.

Program Highlights

Administration Program Major Budget Highlights	
♦ The executive requests	<ul style="list-style-type: none"> • Statewide present law adjustments • Fixed cost workers' compensation management allocation
Major LFD Issues	
♦	Budget includes funds in FY 2011 for purchases paid off in FY 2010

LFD ISSUE

Budget includes funds in FY 2011 for purchase paid off in FY 2010

The Administrative Program increased operating expenses \$15,000 or 10.1 percent above the legislatively approved FY 2008 budget using program transfers of general fund from personal services in the Student Services Program. It should be noted that programs are allowed to transfer funds between programs and between expenditure levels to allow for unanticipated costs. Funding was used to offset costs for a telephone system upgrade. MSDB reimbursed the Department of Administration for the approximately \$74,000 cost of the system over a three year period beginning in FY 2008. The telephone system will be paid for in FY 2010. The legislature may wish to consider reducing the FY 2011 general fund appropriation for operating expenses by \$16,115 to reflect the reduced costs.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table Administration Program							
Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	Total General Fund	\$ 467,901	99.5%	\$ 495,771	99.2%	\$ 457,269	99.1%
	01100 General Fund	467,901	99.5%	495,771	99.2%	457,269	99.1%
02000	Total State Special Funds	2,160	0.5%	3,751	0.8%	3,939	0.9%
	02050 School Trust Interest/Income	2,160	0.5%	3,751	0.8%	3,939	0.9%
Grand	Total	\$ 470,061	100.0%	\$ 499,522	100.0%	\$ 461,208	100.0%

General fund supporting the administrative program increases 3.6 percent between the 2009 and 2011 biennia. School trust interest/income is generated from trust lands granted by the federal government to the state for the benefit of MSDB. While less than 1 percent of the total funding, the increase of school trust interest/income is 78 percent higher in the 2011 biennium when compared to the 2009 biennium.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	467,901	467,901	935,802	98.19%	470,061	470,061	940,122	97.85%
Statewide PL Adjustments	23,982	(14,003)	9,979	1.05%	25,573	(12,224)	13,349	1.39%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	3,888	3,371	7,259	0.76%	3,888	3,371	7,259	0.76%
Total Budget	\$495,771	\$457,269	\$953,040		\$499,522	\$461,208	\$960,730	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					20,784					21,782
Vacancy Savings					(13,673)					(13,712)
Inflation/Deflation					9					9
Fixed Costs					18,453					(20,303)
Total Statewide Present Law Adjustments					\$25,573					(\$12,224)
Grand Total All Present Law Adjustments					\$25,573					(\$12,224)

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate** - The Administration Program estimates the market ratio on October 1, 2008, after implementing the HB 13 pay adjustments, will be 96 percent of market for classified staff. The Administration Program does not make any exceptions on progression to market.
- **Vacancy** - The program experienced no turn over in positions and did not generated vacancy savings.
- **Legislatively applied vacancy savings** - The Administration Program was unable to attain the legislatively applied vacancy savings rate of 4 percent as all positions were filled during FY 2008. MSDB transferred unused

personal services appropriation authority from the Student Services Program to the Administration Program to fund all unfunded personal services costs.

- **Pay Changes** – Position and pay changes outside of the increases given HB 13 were granted for management positions within the program. The increases were done to maintain internal pay equity between management and the contract professional staff.
- **Retirements** - The program anticipates that 40 percent of its current workforce will be eligible for retirement in the 2011 biennium.

**LFD
COMMENT**

Retirement liability 16.6 percent of FY 2011 annual personal services budget

The proposed FY 2011 budget for personal services is about \$329,000. As of October 2008, MSDB estimates the anticipated compensated absence liability for employees qualifying for full retirement in the 2011 biennium would be over 16.6 percent of the annual personal services budget. As discussed above, this program does not generally generate large vacancy savings. Options for payment of retirement payouts, should they occur, would be for the agency to leave the position vacant for several months or obtain a transfer from the Governor's personal services contingency account to cover the costs if funds cannot be found elsewhere in the agency.

New Proposals

New Proposals										
Program	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation										
01	0.00	3,888	0	0	3,888	0.00	3,371	0	0	3,371
Total	0.00	\$3,888	\$0	\$0	\$3,888	0.00	\$3,371	\$0	\$0	\$3,371

DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only (OTO) general fund appropriation. For the 2011 Biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	4.00	4.00	4.00	4.00	4.00	4.00	0.00	0.00%
Personal Services	150,655	171,583	162,294	163,315	322,238	325,609	3,371	1.05%
Operating Expenses	416,837	375,733	378,353	377,287	792,570	755,640	(36,930)	(4.66%)
Capital Outlay	0	0	0	0	0	0	0	n/a
Total Costs	\$567,492	\$547,316	\$540,647	\$540,602	\$1,114,808	\$1,081,249	(\$33,559)	(3.01%)
General Fund	567,492	547,316	540,647	540,602	1,114,808	1,081,249	(33,559)	(3.01%)
Total Funds	\$567,492	\$547,316	\$540,647	\$540,602	\$1,114,808	\$1,081,249	(\$33,559)	(3.01%)

Program Description

The General Services Program staff is responsible for general upkeep and maintenance of the school's eight buildings and 18.5 acre campus. The majority of the buildings were built between 1940 and 1984.

Program Highlights

General Services Program Major Budget Highlights	
♦ The executive proposes reducing general fund:	
• To reflect the reduction in energy conservation bond costs and other one-time operating costs in FY 2008	
• Due to replacing a school van with a Motor Pool leased vehicle	
♦ The reductions are partially offset by statewide present law adjustments	

Program Narrative

In FY 2008, the General Services Program replaced a number of deteriorating concrete sidewalks which can pose hazards to its visually impaired students. In addition, the program installed a video surveillance system to increase security and reduce vandalism on the campus, replaced doors throughout, and installed hardware for an expanded computer network. Maintenance costs are approximately 24.9 percent of operating expenses in the 2011 biennium.

Utilities comprise 43.6 percent of the operations budget in the 2011 biennium. As energy prices fluctuate, the amount available for maintenance projects on campus is adjusted.

In FY 2009, the program anticipates replacing a portion of the carpet and linoleum in one of the cottages using funding provided by a private donor. MSDB has included a request to the Long Range Building Program for funding in the 2011 biennium to replace carpet and linoleum in the residential cottages.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
General Services						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 567,492	100.0%	\$ 540,647	100.0%	\$ 540,602	100.0%
01100 General Fund	567,492	100.0%	540,647	100.0%	540,602	100.0%
Grand Total	\$ 567,492	100.0%	\$ 540,647	100.0%	\$ 540,602	100.0%

The executive requests a 3.0 percent decrease in general fund for this program.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	567,492	567,492	1,134,984	104.97%	567,492	567,492	1,134,984	104.97%
Statewide PL Adjustments	17,784	17,739	35,523	3.29%	17,784	17,739	35,523	3.29%
Other PL Adjustments	(44,629)	(44,629)	(89,258)	(8.26%)	(44,629)	(44,629)	(89,258)	(8.26%)
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$540,647	\$540,602	\$1,081,249		\$540,647	\$540,602	\$1,081,249	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2010						Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					18,402					19,464
Vacancy Savings					(6,763)					(6,804)
Inflation/Deflation					9,608					10,424
Fixed Costs					(3,463)					(5,345)
Total Statewide Present Law Adjustments					\$17,784	\$17,739				
DP 1 - Energy Conservation Bonds	0.00	(7,000)	0	0	(7,000)	0.00	(7,000)	0	0	(7,000)
DP 2 - Operating Cost Reduction - Lease Vehicle	0.00	(1,757)	0	0	(1,757)	0.00	(1,757)	0	0	(1,757)
DP 8 - Pgm 02 Correct Duplicate Budget Entry	0.00	(35,872)	0	0	(35,872)	0.00	(35,872)	0	0	(35,872)
Total Other Present Law Adjustments										
	0.00	(\$44,629)	\$0	\$0	(\$44,629)	0.00	(\$44,629)	\$0	\$0	(\$44,629)
Grand Total All Present Law Adjustments					(\$26,845)	(\$26,890)				

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Agency Market** - The General Services program estimates the market ratio on October 1, 2008, after implementing HB 13 pay adjustments, will be 85 percent of market. However, the market ratio for two maintenance workers is estimated to be below 80 percent of the target in FY 2009. The program does not make any exception on progression to market for positions in this program.
- **Vacancy** – Maintenance workers positions have a high turn-over rate in this program. To address this issue, MSDB reclassified one position based on the skill levels required and applied the 0.6 percent included in HB 13 for discretionary purposes such as market progression, job performance, or employee competencies to all maintenance positions.
- **Legislatively applied vacancy savings** – Due to significant decreases in the program workers' compensation insurance premiums and receipt of a large refund on the premium costs, the program was able to offset the required vacancy savings with the reductions in workers' compensation insurance costs.
- **Pay Changes** – The program did not grant any pay changes outside those approved in HB 13.
- **Retirements** – This program does not have any employees eligible for retirement in the 2011 biennium.

DP 1 - Energy Conservation Bonds - MSDB spent \$18,300 in FY 2008 on energy conservation bonds funded through the Department of Environmental Quality (DEQ) for projects which generate energy savings. DEQ is charging the school \$11,300 in each year of the 2011 biennium for energy conservation bonds, which is a reduction of \$5,000 from the base year.

DP 2 - Operating Cost Reduction - Lease Vehicle - The school is requesting a Motor Pool lease van to replace a school van that has high mileage. This decision package makes a reduction in operating costs for a school owned van that will be replaced. The lease vehicle is budgeted under the Education Program.

DP 8 - Pgm 02 Correct Duplicate Budget Entry - MSDB moved personal services authority from the Student Services Program into operating authority in the General Services Program in the FY 2008 base year. The personal services authority was restored in the base personal services calculations in the Student Services Program and it appears in the operating base authority of the General Services Program. This removes \$35,872 in the General Services Program from the operating expenses for each year of the 2011 biennium.

**LFD
COMMENT**

The funding was used to assist with the costs of the maintenance projects highlighted in the program discussion.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	29.74	29.74	29.74	29.74	29.74	29.74	0.00	0.00%
Personal Services	1,054,888	1,253,478	1,216,234	1,219,721	2,308,366	2,435,955	127,589	5.53%
Operating Expenses	106,900	112,731	110,067	111,000	219,631	221,067	1,436	0.65%
Total Costs	\$1,161,788	\$1,366,209	\$1,326,301	\$1,330,721	\$2,527,997	\$2,657,022	\$129,025	5.10%
General Fund	1,142,628	1,339,022	1,307,141	1,311,561	2,481,650	2,618,702	137,052	5.52%
Federal Special	19,160	27,187	19,160	19,160	46,347	38,320	(8,027)	(17.32%)
Total Funds	\$1,161,788	\$1,366,209	\$1,326,301	\$1,330,721	\$2,527,997	\$2,657,022	\$129,025	5.10%

Program Description

The Student Services Program provides residential care for out-of-district children living at the school. The program operates 24 hours a day, 7 days a week. By statute, MSDB provides supervised transportation for students to return home once a month during the school year. The residential program includes two cottages, each having three wings connected by a food service building. One of the wings is used for the campus infirmary.

Program Highlights

Student Services Program Major Budget Highlights	
♦	The agency proposes no changes except statewide present law adjustments
Major LFD Issues	
♦	Given the long term nature of the vacancies in this program, the legislature may wish to consider restricting the portion of personal services appropriation attributable to the vacancies
♦	MSDB needs to provide specific goal and objective measurements based on the baseline determined during the 2009 interim

Program Narrative

The costs of providing residency for students and student travel to their homes each month are wholly supported by the general fund. Non-employee travel costs increase 61.5 percent in the 2011 biennium when compared to the 2009 biennium and comprise 50.1 percent of the operating expenses. Costs of providing meals to the students comprise more than 44 percent of operating expenses in the 2011 biennium. Federal funds for the national school lunch program provide support for about 39 percent of the costs of providing meals to the students.

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 interim.

The LFC monitored the MSDB goal to provide the highest quality of residential care for residential students inclusive of 24 hour health care services, food services that meet nutritional standards, a full range of recreational and social opportunities, a program which promotes the development of a positive self-concept, and effective independent life

skills. The measureable objectives (performance measures) selected for review included the following:

- Annual parent satisfaction survey
- Annual student satisfaction survey
- Annual staff satisfaction survey
- Quarterly measurement of medication and treatment procedures
- School Foods Program audit
- Food service facility inspection report
- Usage and number of recreation and extra curricular opportunities at Mustang Center
- Summary of student incidence reports
- Pre/post assessment results for students in Independent Living Skills Program

Successes

MSDB reported the following successes in June 2008:

- Overall positive response of parents on the residential program – 93 percent
- Overall positive response of students on the residential program – 91 percent
- 95 percent of the students felt the cottage staff expects them to do their best
- Overall positive response of cottage staff – 87 percent

Challenges

Included in the measurements was an inspection of the food service facilities to be conducted by the Cascade County Health Department. MSDB contacted the health department on October 1, 2007 and May 1, 2008 to request this inspection but as of June 2008 it had still not occurred. MSDB will continue to contact the health department so that the food service facilities can be inspected.

While overall MSDB had positive responses on all three surveys, MSDB identified areas where improvements can be considered. Now that MSDB has baseline information, the school needs to develop performance targets and strategies to achieve performance improvements.

2011 Biennium Major Goals

LFD COMMENT

The performance measurement process, whereby members of the LFC meet with state agencies to discuss progress on specific goals, was fully implemented in the 2009 interim. MSDB presented measurable data in June 2008 for the majority of its objectives. This data is considered the baseline for the school and can be used to measure progress in FY 2009 and the 2011 biennium.

**LFD
ISSUE**

MSDB needs to include specific measurements for the 2011 biennium in their objectives

As discussed above, MSDB established baseline data in FY 2008 for their goal of providing high quality care to the residential students of the school. Potential areas of improvement include:

- o Increasing the number of responses on parent satisfaction surveys - 30 percent were returned
- o Increasing the number of parents who report they feel the cottage keeps them informed of activities – 73 percent felt they were informed
- o Increasing the number of children participating in outside games – 81 percent played outside in FY 2008
- o Increasing the number cottage staff responding to the staff survey - 46 percent responded in FY 2008
- o Increasing the number of staff who feel the staff development/training is worthwhile – 67 percent reported it was in FY 2008
- o Decreasing the number of major student infractions reported in the 2011 biennium – 23 infractions were reported by the cottages and 18 were reported by the school
- o Decreasing the number of infirmary admits over the year – 24 in FY 2008
- o Increasing the post assessment results for the Independent Living Skills Program – students ranged from 75 to 95 percent

As discussed in the agency overview, MSDB is required to submit specific and quantifiable objectives which the legislature can use to establish appropriations policy. The legislature may wish to discuss with MSDB how they can provide measurable targets for the 2011 biennium based on the baseline information developed during the interim as a part of their budget deliberations for monitoring by the LFC during the upcoming interim.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Student Services						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 1,142,628	98.4%	\$ 1,307,141	98.6%	\$ 1,311,561	98.6%
01100 General Fund	1,142,628	98.4%	1,307,141	98.6%	1,311,561	98.6%
03000 Total Federal Special Funds	19,160	1.6%	19,160	1.4%	19,160	1.4%
03167 National School Lunch	19,160	1.6%	19,160	1.4%	19,160	1.4%
Grand Total	\$ 1,161,788	100.0%	\$ 1,326,301	100.0%	\$ 1,330,721	100.0%

The Student Services Program general fund support increases 5.6 percent in the 2011 biennium when compared with support provided in the 2009 biennium. The program receives a small amount of federal funds from the national school lunch program. The federal program is based on the number of students served and does not include increases for higher food costs.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	1,142,628	1,142,628	2,285,256	87.27%	1,161,788	1,161,788	2,323,576	87.45%
Statewide PL Adjustments	164,513	168,933	333,446	12.73%	164,513	168,933	333,446	12.55%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$1,307,141	\$1,311,561	\$2,618,702		\$1,326,301	\$1,330,721	\$2,657,022	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					212,022					215,654
Vacancy Savings					(50,676)					(50,821)
Inflation/Deflation					3,167					4,100
Total Statewide Present Law Adjustments					\$164,513					\$168,933
Grand Total All Present Law Adjustments					\$164,513					\$168,933

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate** - The Student Services Program estimates the market ratio on October 1, 2008, after implementing HB 13 pay adjustments, will be 95 percent of market for classified staff and 92 percent for licensed professional staff. The program used vacancy savings, the 0.6 percent discretionary funding included in HB 13, and the per educator component to increase salaries in relation to market.
- **Vacancy** – The Student Services Program has high turn over rates with the cottage life attendants. To address this issue, MSDB applied the 0.6 percent included in HB 13 for discretionary purposes to the cottage life positions that completed child care worker certification.

LFD ISSUE

Program has long term vacancies

The determination of which cottage wings are open and staffed depends on the total census of residential students, their ages, and gender. During FY 2008, the Student Services Program left selected positions vacant. A review of positions shows that an LPN position has been vacant since April 2005 and two institutional attendants have been vacant, one since February 2007 and one since August 2007. Due to the vacancies, the program was able to transfer \$51,000 from personal services to operating costs in other programs to cover unanticipated costs. The executive includes \$73,687 in FY 2010 and \$73,757 in FY 2011 in personal service costs for these positions. The student residential population in FY 2008 was 22, and MSDB estimates the population will remain at this level in the 2011 biennium. MSDB staff the cottages based on the age and gender of the children and is hesitant to reduce their approved FTE in case the staffing needs change over the next biennium as students graduate and others join the school.

Option: Given the long-term nature of the vacancies in this program, the legislature may wish to consider restricting the portion of the personal services appropriation attributable to the vacancies.

- **Legislatively applied vacancy savings** – The Student Services Program used selected vacant positions to attain the legislatively applied vacancy savings.
- **Pay Changes** – As discussed under market rate above, the program used vacancy savings, discretionary funding included in HB 13, and the per educator component to increase program staff salaries to the range indicated by the market survey. These increases are contained as part in the personal service statewide adjustments shown in the table.
- **Retirements** – The program anticipates that 6 percent of its current workforce will be eligible for retirement in the 2011 biennium. As of October 2008, the anticipated compensated absence liability for employees qualifying for full retirement was \$43,480.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	49.87	49.87	49.87	49.87	49.87	49.87	0.00	0.00%
Personal Services	3,285,410	3,668,120	3,735,321	3,736,740	6,953,530	7,472,061	518,531	7.46%
Operating Expenses	325,865	305,918	406,701	408,316	631,783	815,017	183,234	29.00%
Total Costs	\$3,611,275	\$3,974,038	\$4,142,022	\$4,145,056	\$7,585,313	\$8,287,078	\$701,765	9.25%
General Fund	3,122,549	3,608,758	3,679,871	3,668,454	6,731,307	7,348,325	617,018	9.17%
State Special	415,210	291,764	398,338	412,789	706,974	811,127	104,153	14.73%
Federal Special	73,516	73,516	63,813	63,813	147,032	127,626	(19,406)	(13.20%)
Total Funds	\$3,611,275	\$3,974,038	\$4,142,022	\$4,145,056	\$7,585,313	\$8,287,078	\$701,765	9.25%

Program Description

The Education Program provides an education for children with hearing and/or sight loss that prevents them from receiving a quality education in their local schools. The Education Program serves visually and hearing impaired children who remain in their local school districts by providing deaf/blind educational support services to the students' local schools. The program also offers "mainstream" programs for on-campus students in a joint effort with the Great Falls public school system. Additionally, pursuant to 20-8-102(3), MCA, the school is charged with the responsibility of tracking a child identified as hearing or visually impaired from the time of impairment identification through the child's exit from intervention or educational services.

Program Highlights

Education Program Major Budget Highlights
<ul style="list-style-type: none">◆ In addition to Statewide Present Law Adjustments, which comprise the bulk of the increase, the executive requests:<ul style="list-style-type: none">• An additional \$90,000 in general fund support for early intervention services• Leasing a motor pool van to replace a school owned vehicle with high mileage◆ The budget includes program goals relating to the on campus education program and outreach services provided to school districts around Montana
Major LFD Issues
<ul style="list-style-type: none">◆ Federal revenues could be increased, reducing the need for general fund appropriations◆ The legislature may wish to consider the policy option of serving blind and deaf students at MSDB or in the students' local school district◆ MSDB should establish additional state special revenue accounts to clarify the source of the fund balance in the school trust income and interest account and allow for a determination of the amount of ongoing general fund needed by the program

Program Narrative

The Education Program provides for both educational needs of students on their campus and outreach services to students in 92 school districts throughout Montana. In FY 2008 the on-campus education program expended about \$2.4 million in general fund. The outreach program expended \$0.7 million in general fund.

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 interim.

The LFC monitored the following program goals:

- Provide an education for deaf and blind students which allows them to access education professionals, peers, communication, and learning which is not available in their home districts and which allows them to achieve their highest level of independence
- Increase staff and reduce caseloads for the outreach program to increase contact and service to additional students in the 2009 biennium
- Recruit and retain highly qualified staff within 3 months of vacancy announcement

Successes

- The Education Program was able to increase the percentage of market for licensed professional staff to 92 percent of market for the 2008 survey.
- Increased staffing in outreach services allowed reduced student to outreach worker ratios while increasing the number of children served.

Challenges

The outreach program surveys indicated 40 percent of parents say the students' needs are being met in the classroom, 60 percent of those responding do not. Given the increasing number of visually or hearing impaired children remaining in their local school districts and receiving services through the outreach program, MSDB and the local school districts will need to work to develop strategies to improve the classroom experience for these children.

LFD ISSUE

Should students be serviced at MSDB or their local school districts?

The population of residential students at MSDB has declined over the last several years from a high in FY 2002 of 42 students to 22 in FY 2008 as more and more youth are served in their local communities. The trend to serving children in their local communities appears to have some associated challenges. A survey of parents of visually or hearing impaired students served in local school districts shows 60 percent of those surveyed indicated their student's needs were not being addressed in the classroom. MSDB surveyed families in the outreach program whose students can be served at MSDB. 14 families indicated they would consider placing their children at MSDB if weekly transportation home was provided. Of the 14, 10 of the families had children under the age of 12. Currently, statute requires MSDB to provide transportation home each month. MSDB has determined it would require an additional \$266,542 in FY 2010 to provide weekly transportation home to the students identified to attend the school.

The survey did not request additional information on the services or the type of student needs that were not being addressed in local districts. The policy decision for legislative consideration is whether additional children should go into MSDB or whether additional resources can or should be provided in local school districts.

Option: The legislature may wish to request additional information from the Office of Public Instruction on a determination what services the parents feel are missing and how they can be addressed. A component of how the needs can be addressed should include the associated costs of providing the services in the local school district.

2011 Biennium Major Goals

The 2011 goal of the Outreach Services Program is to serve as a resource center providing information, technical assistance, evaluation, counseling, and referral services as well as leadership to: (1) parents of deaf and blind children from birth through age 21; (2) public schools in Montana who have deaf and blind children enrolled; and (3) organizations and individuals concerned with services to deaf and blind children.

The 2011 goal of the on-campus educational program is to provide students placed in the campus-based program with a comprehensive curriculum and instruction from preschool to 12th grade that includes vocational education, extracurricular activities, social education, and support services comparable to educational opportunities afforded to non-disabled children.

LFD
ISSUE

The objectives provided to meet these goals over the 2011 biennium are not specific, measurable or time-bound.

For example, to meet the outreach services goal, MSDB provides the following objectives:

- Review consumer satisfaction surveys conducted annually to ensure needs are being met effectively
- Increase the amount of training accessible to parents, educators, and others working with deaf and blind children
- Process referrals on newly identified infants/toddlers and ensure that appropriate services are in place within 6 months of identification

Of the three objectives above, only one has a time-bound measurement included. Baseline information on consumer satisfaction surveys referenced above was determined through the LFC performance measurement process and is available to establish performance measurement targets for the 2011 biennium. The number of training sessions provided to parents in FY 2008 can also be determined and used to establish targets for the 2011 biennium. The legislature may wish to discuss with MSDB how it can provide appropriately written objectives to its goals and be measured.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Education						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 3,122,549	86.5%	\$ 3,679,871	88.8%	\$ 3,668,454	88.5%
01100 General Fund	3,122,549	86.5%	3,679,871	88.8%	3,668,454	88.5%
02000 Total State Special Funds	415,210	11.5%	398,338	9.6%	412,789	10.0%
02050 School Trust Interest/Income	415,210	11.5%	398,338	9.6%	412,789	10.0%
03000 Total Federal Special Funds	73,516	2.0%	63,813	1.5%	63,813	1.5%
03012 E.C.I.A. Chapter I	73,516	2.0%	63,813	1.5%	63,813	1.5%
Grand Total	\$ 3,611,275	100.0%	\$ 4,142,022	100.0%	\$ 4,145,056	100.0%

The Education Program is funded by general fund, state special revenue generated from income on school trust lands, reimbursements from school districts for large print and Braille materials, tuition reimbursements for out of state students attending MSDB, and federal grants used to meet special educational program needs.

**LFD
ISSUE****MSDB Should Establish Additional State Special Revenue Accounts to Clarify the Amount of General Fund Needed to Support the Program**

The state special revenue account includes several funding sources, used for different purposes, and appropriated by different means. MSDB uses the state school trust income/interest account to record:

- o Transfers of income generated on school trust lands used to provide support for MSDB
- o Statutorily appropriated tuition reimbursements for out of state students attending MSDB, required to be used for educational purposes
- o Miscellaneous reimbursements from school districts for large print and Braille materials used to reduce the operational costs of providing the materials

State accounting policy states that state special revenue funds are used to account for the proceeds of specific revenue sources restricted to expenditure for specified purposes. According to the policy, sub-accounts within the state special revenue funds are used to account for specific revenue sources and their related expenditures. School trust income is appropriated by the legislature primarily to provide support for the Education Program, although it can be used through the agency to provide services to the deaf and blind. The figure below shows various revenue sources recorded in the school trust income and the related fund balance.

20-8-107, MCA requires that MSDB use the funds paid for out-of-state tuition for educational purposes. These funds are statutorily appropriated for this purpose and do not require additional legislative approval in the general appropriations act. It is unclear if the legislature has been appropriating in the general appropriations act funds which are already statutorily appropriated. The portion of the fund balance generated from out of state tuition is not readily apparent.

20-8-110, MCA states that school trust land income shall be for the use and benefit of the blind and deaf. The school trust land income has, by statute, a broader use. For example, the funds could be used also be used to support the Student Services Program or the General Services Program as both benefit the students attending MSDB. If the fund balance in the school trust income and interest account has been generated through higher than anticipated transfers of school trust income, the legislature could consider offsetting general fund with the increased school trust income.

Montana School for the Deaf and Blind Transfer of School Trust Lands Income					
Fiscal Year	School Trust Transfers In	Out of State Tuition	Rentals	Student Tuition	Fund Balance
2000	\$249,919	\$143,853	\$4,065		\$191,542
2001	\$279,140	\$165,106	\$4,868		\$280,255
2002	\$298,306		\$6,789		\$215,135
2003	\$299,569	\$1,783	\$6,365	\$1,783	\$134,669
2004	\$299,049	\$923	\$3,335	\$923	\$120,918
2005	\$318,818	\$3,788	\$1,346	\$3,788	\$132,771
2006	\$290,605	\$70,349	\$1,496	\$70,349	\$185,718
2007	\$323,431		\$1,421	\$76,075	\$215,106
2008	\$334,289		\$1,446	\$83,098	\$169,647

Option: To clarify the source of the fund balance in the school trust income and interest account and to allow for determination of an appropriate amount of general fund support for the program, the legislature may wish to require the executive to establish separate sub accounts for the state special revenues received by MSDB.

**LFD
ISSUE****Federal Revenues Could Be Increased Reducing General Fund**

The Legislative Audit Division conducted a performance audit on MSDB which was issued in June 2008. The summary of the report discussing funding states:

MSDB receives a portion of IDEA federal grant funds but may be eligible to receive additional funds. Similarly, MSDB has never received Title I grant funds. Free and reduced lunch counts can be used in both formula grants as the poverty factor instead of using district census poverty data. By doing so, MSDB could potentially receive an additional \$27,000, in federal funds.

**LFD
ISSUE (CONT.)**

The report recommends MSDB and the Office of Public Instruction (OPI) work together to examine efforts to increase federal funds for MSDB. The executive proposes reductions in the federal funds granted by OPI and increases general fund to offset the costs.

Option: The legislature may wish to request MSDB and OPI determine MSDB's eligibility for additional federal funds. If MSDB qualifies for the additional funds, the legislature may wish to increase federal revenues and decrease general fund appropriations in the Education Program.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	3,122,549	3,122,549	6,245,098	84.99%	3,611,275	3,611,275	7,222,550	87.15%
Statewide PL Adjustments	488,316	476,773	965,089	13.13%	393,944	396,852	790,796	9.54%
Other PL Adjustments	23,773	23,899	47,672	0.65%	23,773	23,899	47,672	0.58%
New Proposals	45,233	45,233	90,466	1.23%	113,030	113,030	226,060	2.73%
Total Budget	\$3,679,871	\$3,668,454	\$7,348,325		\$4,142,022	\$4,145,056	\$8,287,078	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2010						Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					526,818					528,291
Vacancy Savings					(149,078)					(149,132)
Inflation/Deflation					16,314					17,803
Fixed Costs					(110)					(110)
Total Statewide Present Law Adjustments					\$393,944	\$396,852				
DP 2 - Extracurricular Compensation										
0.00	26,938		0	0	26,938	0.00	26,938	0	0	26,938
DP 3 - Motor Pool Lease Vehicle										
0.00	8,299		0	0	8,299	0.00	8,425	0	0	8,425
DP 8 - Pgm 04 Correct Duplicate Budget Entry										
0.00	(11,464)		0	0	(11,464)	0.00	(11,464)	0	0	(11,464)
Total Other Present Law Adjustments										
0.00	\$23,773		\$0	\$0	\$23,773	0.00	\$23,899	\$0	\$0	\$23,899
Grand Total All Present Law Adjustments					\$417,717	\$420,751				

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate** - The Education Program estimates the market ratios on October 1, 2008, after implementing HB 13 pay adjustments, will be 84 percent of market for classified staff and 92 percent of market for licensed professional staff. In order to address statewide shortages the program exempts the following positions from the agency policy on entry market ratio of 96 percent of market:

- School psychologist
 - Physical therapist
 - Speech therapist
 - Occupational therapist
 - Audiologist
 - Orientation mobility specialist
- **Vacancy** - While new positions were vacant during the long recruitment process, the Education Program was able to retain current staff. Positions approved by the 2007 Legislature were filled for the FY 2009 school year.
 - **Legislatively applied vacancy savings** - The school received a large refund on its workers' compensation policy due to improved safety and reduced benefit claims over the last few years, which reduced personal service costs in FY 2008. Difficulty in filling several new positions approved by the 2007 Legislature until FY 2009 also created sufficient vacancy savings to fulfill the legislatively required vacancy savings.
 - **Pay Changes** - Recruitment and retention funding granted by the 2007 Legislature, per educator component funding, and the 0.6 percent discretionary funds allocated in HB 13 were used to move positions in the Education Program closer to 100 percent of market.
 - **Retirements** - The program anticipates that 22 percent of its current workforce will be eligible for full retirement in the 2011 biennium. As of October 2008, the anticipated compensated absence liability for employees qualifying for full retirement was \$93,100.

DP 2 - Extracurricular Compensation - The Montana School for the Deaf and the Blind pays extracurricular compensation to employees who sponsor after school activities. Amounts paid to employees are contained in a collective bargaining agreement with the Montana Education Association/Montana Federation of Teachers. Salaries and benefits total \$26,938 per year.

DP 3 - Motor Pool Lease Vehicle - The executive proposes a motor pool lease vehicle to replace a school van that has high mileage. The lease vehicle will be used to transport students.

DP 8 - Pgm 04 Correct Duplicate Budget Entry - MSDB transferred personal services appropriation authority into operating expenses appropriation authority in FY 2008. The personal services authority was restored in the statewide present law adjustment for FY 2010 and FY 2011. It is also included in the general fund appropriations request for operating expenses. This removes \$11,464 in the operating expenses for each year of the 2011 biennium.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				Fiscal 2011				Total Funds
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	
DP 1 - Early Intervention Services										
04	0.00	45,233	0	0	45,233	0.00	45,233	0	0	45,233
DP 4 - Tuition Authority Increase										
04	0.00	0	67,797	0	67,797	0.00	0	67,797	0	67,797
Total	0.00	\$45,233	\$67,797	\$0	\$113,030	0.00	\$45,233	\$67,797	\$0	\$113,030

DP 1 - Early Intervention Services - This proposal provides home-based early intervention services on a bimonthly basis to 35 families of sensory impaired children. Research has shown providing early intervention services to sensory impaired infants by six months of age and younger increases their ability to compete at age-level with their non-handicapped peers when entering educational services.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Deafness and blindness are low incidence disabilities that have a profound effect on the normal acquisition of language and concept development, communication, socialization skills, and independence. Appropriate educational intervention services to meet the unique developmental needs of children ages birth through 5 years of age who are deaf, hard-of-hearing, blind, or low vision are necessary to ensure proper development.

Project Outcome: Goals of this proposal include:

- Through an Individual Family Service Plan (IFSP) or Individual Education Plan (IEP), implement home-based services within 3 months of identification of a vision or hearing loss and maintain those services until the IFSP or IEP team determines the early intervention services are no longer necessary or until the child transitions to the K-12 education setting.
- Employ a sufficient number of trained, part-time family advisors across the state to provide regular, reliable and quality home-based education and information to parents and family of each child served by the program.
- Provide disability specific curriculum based training to family advisors through the Sensory Impaired Home Intervention (SKI-HI) and Vision Impaired In-service in America (VIISA) programs offered through the SKI-HI Institute or similar education and developmental-based family training programs.
- Mitigate communication, language, spatial, and social delays for children with deafness or blindness so that they will enter kindergarten with the best potential for global skill development that corresponds to their chronological age.

Performance Criteria: Progress will be measured through:

- The number of children receiving services through the Family Advisor Program (qualitative)
- The number of referrals and implementation of services (quantitative)
- Percentage of family advisors trained in approved curriculum used for home-based services (quantitative)
- Results of developmental assessments used to measure growth of communication, language, spatial and social growth (quantitative)
- Program effectiveness measured through consumer satisfaction surveys (qualitative).

Milestones:

- One-time implementation of services will be measured within 3 months of MSDB receiving a referral for a child with a qualifying disability
- Developmental assessments will be conducted on entrance and exit from the program as well as annually during the period each child is receiving services from a Family Advisor

FTE: The school will contract with part-time family advisors to provide home-based services. Typically, the advisors are professionals in the field of deafness or blindness or have extensive experience with deafness or blindness and the curriculum models used with home-based services.

Funding: This new proposal would be funded from the general fund at a cost of \$90,466 for the 2011 biennium.

Obstacles: Challenges include:

- Identifying potential family advisors with appropriate background knowledge of the developmental and educational needs of deaf or blind children within each community where qualifying children live to ensure that on-time services are provided.
- Providing adequate public information about the Family Advisor Program so that the general public is aware of this service.

Risks: Without disability specific training for these families, deaf or blind children are at risk of not developing the skills necessary to enter kindergarten ready to learn to read, write, socialize and communicate on a level with their non-disabled peers.

DP 4 - Tuition Authority Increase - This decision package would increase authority to utilize tuition revenue fund balance.

**LFD
COMMENT**

As discussed above, the use of a single account for multiple sources of state special revenue makes it difficult to determine the revenue source generating the fund balance used in this decision package. Refer to LFD Issue under funding for additional information and considerations for the legislature.

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	7.00	7.00	7.00	7.00	7.00	7.00	0.00	0.00%
Personal Services	506,369	557,017	534,422	538,163	1,063,386	1,072,585	9,199	0.87%
Operating Expenses	322,558	240,170	375,454	315,253	562,728	690,707	127,979	22.74%
Grants	420,903	499,973	424,783	430,332	920,876	855,115	(65,761)	(7.14%)
Total Costs	\$1,249,830	\$1,297,160	\$1,334,659	\$1,283,748	\$2,546,990	\$2,618,407	\$71,417	2.80%
General Fund	467,889	459,035	500,741	475,558	926,924	976,299	49,375	5.33%
State Special	204,517	214,756	218,080	211,705	419,273	429,785	10,512	2.51%
Federal Special	577,424	623,369	615,838	596,485	1,200,793	1,212,323	11,530	0.96%
Total Funds	\$1,249,830	\$1,297,160	\$1,334,659	\$1,283,748	\$2,546,990	\$2,618,407	\$71,417	2.80%

Agency Description

Mission Statement: The Montana Arts Council is the agency of state government established to develop the creative potential of all Montanans, advance education, spur economic vibrancy and revitalize communities through involvement in the arts.

The Montana Arts Council (MAC) is authorized by Title 22-2-101, MCA to assist public and private institutions with artistic and cultural activities. The council encourages participation in, and appreciation of, the arts. The council fosters interest in the state's cultural heritage, expands state cultural resources, and supports freedom of artistic expression through ongoing programs and projects. The council administers the Cultural and Aesthetic Project grants and other grants approved by the legislature, and makes recommendations to the legislature on arts related issues.

Agency Highlights

Montana Arts Council Major Budget Highlights
<ul style="list-style-type: none">◆ Of the 2.7 percent increase from biennium to biennium, 75 percent is due to new proposals. The executive proposes new funding for:<ul style="list-style-type: none">• Artists in schools and communities grants• Database and e-grant projects
Major LFD Issues
<ul style="list-style-type: none">◆ Personal services costs continue to exceed budgeted legislative authority◆ MAC does not have specific, measurable, or time-bound objectives for its goals in the 2011 biennium

Agency Discussion

The executive proposes program increases of 13.8 percent for MAC when compared to the 2009 biennium. Approximately 16.3 percent of the increases are due to present law adjustments for personal services, fixed costs, and per diem travel for the Montana Arts Council. New proposals make up about 84 percent of the increase. They include:

- Artists in schools and communities grants
- Administrative federal grant support staff
- Database and e-grant funding

Figure 1 shows the difference between actual expenditures and the appropriations budgeted in FY 2008.

Figure 1 Montana Arts Council Budget to Actual Comparison FY 2008			
	Budgeted	Actual	% Change
Personal Services	\$481,131	\$506,369	5.25%
Operating Expenses	389,350	322,558	-17.15%
Grants	<u>459,188</u>	<u>420,903</u>	<u>-8.34%</u>
Total	<u>\$1,329,669</u>	<u>\$1,249,830</u>	<u>-6%</u>

As can be seen in Figure 1, while overall costs were 6 percent lower than budgeted, personal services costs were 5.3 percent higher than budgeted, while both operating expenses and grants declined.

LFD
ISSUE

Personal services costs continue to exceed budgeted legislative authority

In FY 2008, personal service costs for MAC exceeded legislatively appropriated amounts by \$39,430 or 7.9 percent.

MAC personal service costs have exceeded the appropriation for the previous three fiscal years. The following table illustrates:

The Montana Arts Council funded the increases internally and through the personal services contingency account. The following shows personal services contingency account transfers to MAC for FY 2006, 2007, and 2008.

Figure 3	
Montana Arts Council	
Personal Services Contingency Transfers	
FY 2006	\$4,776
FY 2007	\$20,867
FY 2008	\$20,350

Figure 2				
Montana Arts Council				
Personal Service Costs				
	Budgeted	Actual	Above	Percent
	Legislative	Personal	Budgeted	Increase
	Appropriations	Service	Amounts	In Actuals
Costs				
FY 2006	\$444,498	\$457,628	(\$13,130)	
FY 2007	\$463,774	\$487,006	(\$23,232)	6.42%
FY 2008	\$496,850	\$536,280	(\$39,430)	10.12%

Please note that the personal services contingency account is frequently accessed by agencies that cannot meet their legislatively mandated 4 percent vacancy savings, or to pay unexpected or unbudgeted expenditures such as retirements or other payouts. However, MAC is not assessed the four percent vacancy savings and did not have payouts in any year that exceeded the amount of the over expenditure. Rather, the over expenditure was primarily due to actions taken by the MAC.

Legislative appropriations for personal services includes funding for:

- o Salaries and benefits, including longevity increases
- o Health insurance
- o Cost of living increases approved in the pay plan

Statute also allows agencies to make a number of other changes, including hiring additional modified FTE; and adjusting salaries for market, promotions, and other considerations. MAC took the following actions that increased personal services costs:

- o Granted strategic pay increases to retain staff – FY 2008 impact of costs \$9,183
- o Granted discretionary pay to progress position to market – FY 2008 impact of costs \$2,744
- o Hired 2.00 modified FTE and temporaries – FY 2008 impact of costs \$18,859

22-2-105, MCA allows the Montana Arts Council to employ administrative officers and other employees as may be needed. However, the statute specifically states that the council is to fix their compensation within the amounts made available for such purposes. The amounts approved in the legislatively appropriated budget would be considered the amount made available for personal services.

Option:

Given its trend of continually over-expending personal services appropriations, the legislature may wish to request a written plan from the Montana Arts Council outlining how it will stay within personal service appropriations for its 7.00 FTE in the 2011 biennium.

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 interim.

The LFC monitored MAC's goal to provide access to high quality arts education in order to develop the full creative potential of all Montanans, and do so with a streamlined grant management system and strong web teaching tools.

Measurable objectives selected for this goal include:

- 60 community events held in conjunction with arts education grant programs
- 4,000 community members benefitting from arts education grant programs
- 10 percent of enrolled K-12 students are served by the art education grant program
- 65 percent of counties in Montana are served through the art education grant program
- Database is 100 percent compatible with long-term grant management needs and completed by June 30, 2009

Challenges

The art education grant program expended or accrued \$116,338 in FY 2008. Reports on the use of the grants for FY 2008 were to be sent to MAC by the end of September. MAC reported to the June LFC that they would have the data analyzed by the end of October. As of October 23, 2008 the report is not completed and MAC officials state it will be another 2 months before they are able to provide information on the FY 2008 program.

2011 Biennium Major Goals

MAC is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goals are:

- All Montanans, regardless of potential barriers they face, will find access to arts education opportunities that contribute to life-long learning and create expression
- All Montana K-12 students have the opportunity to study a curriculum that enables them to achieve the Montana Board of Public Education's (BPE) standards for arts, thereby providing all the arts for all the students in all the schools
- Provide or help link artists, artisans, arts educators and arts organization staff and boards to professional development and collaboration opportunities that help them build healthy careers and businesses wherever they happen to live in Montana
- Build new markets, exposure, and participation opportunities for Montana artists, artisans, and arts organizations of all cultures by enhancing marketing outlets and resources, improving exhibition and performance opportunities, promotion, and sales venues

LFD ISSUE MAC does not have specific, measurable, or time-bound objectives for its goals in the 2011 biennium. For example, to measure the goal that all Montana K-12 students will have the opportunity to study a curriculum that enables them to achieve the Montana BPE's standards for arts MAC includes the following objectives:

- Provide technical assistance on curriculum development, assessment tools and resources in person, by telephone, and on our website
- Organize workshops for teachers and teaching artists in assessment, lesson planning, classroom management, and integration of the arts with other subjects
- Offer grants to develop arts curriculum, assessment, professional development, and artist residences

- Provide leadership in advocating for all arts for all the students in all the schools through agency representation on statewide boards and collaborating with other state agencies and state/national arts organizations

None of the objectives are time-bound and none include specific measurable targets. While the goal discusses the BPE standards for arts, none of the measurable objectives include the percentage of schools meeting the BPE standards. The Office of Public Instruction determines the accreditation status of all public schools in Montana each year. The report on accreditation could be used to determine how many schools are not currently meeting the standard and which, if any, of these schools has received MAC arts education grants.

In addition, as of October 2008, MAC has been unable to provide information to the legislature on performance measurements selected to measure the success of their goal to provide K-12 students with the opportunity to study a curriculum that enables them to achieve the BPE standards for arts in the 2009 biennium.

The executive is proposing an additional \$13,309 in general fund to support the art education grant program and \$40,320 total funds for additions to the database, which was considered a part of the program during the 2009 biennium. The Legislative Finance Committee Education Subcommittee recommends that, as part of its budget deliberations during the 2009 legislative session, the Joint Appropriations Subcommittee on Education:

1. Discuss MAC's goal of providing access to high quality arts education; and
2. Require MAC to report on the specific measures selected for the 2009 interim.

As the agency is required by statute to provide objectives sufficiently specific that the legislature can base appropriation decisions on them, the legislature may wish to discuss with MAC how it can provide specific, measurable, time-bound objectives so that they can be measured. The legislature may also wish to request MAC provide a report on the specific measurements requested by the LFC during the 2009 interim.

Funding

The following table summarizes the funding for the agency, by program and source, as recommended by the Governor.

Program Funding Table Promotion Of The Arts						
Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011
01000	Total General Fund	\$ 467,889	37.4%	\$ 500,741	37.5%	\$ 475,558
	01100 General Fund	467,889	37.4%	500,741	37.5%	475,558
02000	Total State Special Funds	204,517	16.4%	218,080	16.3%	211,705
	02009 Cultural And Aesthetic Project	204,517	16.4%	218,080	16.3%	211,705
03000	Total Federal Special Funds	577,424	46.2%	615,838	46.1%	596,485
	03016 Nea Funds-Basic State Grant	523,425	41.9%	560,838	42.0%	541,485
	03017 Nea Funds-Arts In Education	53,999	4.3%	55,000	4.1%	55,000
Grand	Total	\$ 1,249,830	100.0%	\$ 1,334,659	100.0%	\$ 1,283,748

The agency is funded with a combination of general fund, state special revenue funds from cultural and aesthetic trust fund interest earnings, and federal funds from the National Endowment for the Arts.

The coal severance tax fund shared account supports the Montana Arts Council's administration of the cultural and aesthetic trust activities and its Folklife Program, which promotes Montana's traditional and native arts and cultures. Interest earnings from the corpus of the cultural trust support the Cultural and Aesthetic Program projects and are appropriated to both MAC and other art organizations and projects around the state. MAC administers the grants and makes recommendations to the Long Range Building Program on grant appropriations. In FY 2008, the legislature approved using 36.5 percent of the total appropriation for the Cultural and Aesthetic Program for MAC administration and the Folklife Program. During the 2011 biennium, the executive request for the administration and Folklife Program included in the general appropriations act is 32.5 percent of the total biennial revenue available for appropriation for Cultural and Aesthetic Trust grants.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	467,889	467,889	935,778	95.85%	1,249,830	1,249,830	2,499,660	95.46%
Statewide PL Adjustments	10,784	(41)	10,743	1.10%	35,926	15,466	51,392	1.96%
Other PL Adjustments	(2,277)	(1,844)	(4,121)	(0.42%)	4,318	8,689	13,007	0.50%
New Proposals	24,345	9,554	33,899	3.47%	44,585	9,763	54,348	2.08%
Total Budget	\$500,741	\$475,558	\$976,299		\$1,334,659	\$1,283,748	\$2,618,407	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					23,853					24,394
Inflation/Deflation					1,660					1,915
Fixed Costs					10,413					(10,843)
Total Statewide Present Law Adjustments					\$35,926					\$15,466
DP 5 - Present Law Adjustments	0.00	3,873	1,675	4,920	10,468	0.00	4,306	5,062	5,471	14,839
DP 7 - Remove Telephone Move Charges	0.00	(6,150)	0	0	(6,150)	0.00	(6,150)	0	0	(6,150)
Total Other Present Law Adjustments	0.00	(\$2,277)	\$1,675	\$4,920	\$4,318	0.00	(\$1,844)	\$5,062	\$5,471	\$8,689
Grand Total All Present Law Adjustments					\$40,244					\$24,155

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate** – MAC agency market ratio at June 30, 2008 was 115 percent of market relative to the 2006 market survey. At October 1, 2008, after implementing the HB 13 pay adjustments, the agency market ratio was 91 percent relative to the 2008 market survey
- **Vacancy** – MAC last had a vacant position in FY 2001
- **Legislatively applied vacancy savings** – Because it employs fewer than 20.0 FTE, MAC is exempt from the legislatively applied vacancy savings in the 2009 biennium
- **Pay Changes** – According to MAC, pay changes outside of HB 13 were funded using federal funds in FY 2009. MAC used the 0.6 percent funding in HB 13 to bring two staff closer to the target market ratio

LFD COMMENT

It should be noted that if federal funds are not awarded at the FY 2009 levels during the 2011 biennium, the increases will need to be funded from either state special revenues or general fund

**LFD
ISSUE**

Personal services increases partially funded using personal service contingency funds
Refer to LFD issue in the Agency Discussion section.

- **Retirements** – MAC has 4 employees or 57 percent of its workforce eligible for retirement in the 2011 biennium. The total compensated absence liability for these employees was about \$16,800 as of October 2008.

DP 5 - Present Law Adjustments - The executive recommends funding of \$8,179 in general fund, \$6,737 in state special revenue, and \$10,391 in federal funds over the biennium for anticipated costs of per diem for the council, legal fees, and rent increases.

DP 7 - Remove Telephone Move Charges - Arts Council moved from the City County Building into a private building rented by the Department of Administration in FY 2008. The move created a one-time-only charge of \$6,150 for telephone moving charges. Historically the council has had no expenditures for telephone add/move/change.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				FTE	Fiscal 2011			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 1 - AISC Residencies										
01	0.00	3,880	0	0	3,880	0.00	9,429	0	0	9,429
DP 4 - Database and E-Grant - OTO										
01	0.00	20,320	5,000	15,000	40,320	0.00	0	0	0	0
DP 6101 - Fixed Cost Workers Comp Mgmt Pgm										
01	0.00	145	63	177	385	0.00	125	55	154	334
Total	0.00	\$24,345	\$5,063	\$15,177	\$44,585	0.00	\$9,554	\$55	\$154	\$9,763

DP 1 - AISC Residencies - The executive is requesting \$3,880 in FY 2010 and \$9,429 in FY 2011 for the Artists in Schools and Communities Grant Program (AISC). These programs fund schools and community arts organizations, especially rural Montana communities, to hire teaching artists who provide educational experiences in the arts that address the public schools state art standards. These funds will be matched on a 1:1 basis within the community.

DP 4 - Database and E-Grant - OTO - The Arts Council requests OTO funding for the database and e-grant project costing \$40,320 in the 2011 biennium for 480 hours of development at \$84 per hour. The e-grants program will be designed to fully integrate into MAC's database and produce significant simplification and streamlining for staff and grantees.

DP 6101 - Fixed Cost Workers Comp Mgmt Pgm - The Workers' Compensation Management Program at the Department of Administration was funded by the 2007 Legislature with a one-time-only (OTO) general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Language and Statutory Authority

The executive recommends the following language for inclusion in HB 2.

"All federal funds in [Montana Arts Council] are biennial appropriations."

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	30.50	30.50	30.75	30.75	30.50	30.75	0.25	0.82%
Personal Services	1,980,114	1,799,680	1,781,840	1,785,789	3,779,794	3,567,629	(212,165)	(5.61%)
Operating Expenses	1,838,352	1,855,106	1,962,095	1,920,962	3,693,458	3,883,057	189,599	5.13%
Equipment & Intangible Assets	17,896	56,684	18,724	19,216	74,580	37,940	(36,640)	(49.13%)
Grants	522,135	1,426,372	1,526,723	926,723	1,948,507	2,453,446	504,939	25.91%
Total Costs	\$4,358,497	\$5,137,842	\$5,289,382	\$4,652,690	\$9,496,339	\$9,942,072	\$445,733	4.69%
General Fund	2,348,128	2,513,420	2,866,301	2,829,607	4,861,548	5,695,908	834,360	17.16%
State Special	1,054,978	1,055,012	1,003,577	1,003,577	2,109,990	2,007,154	(102,836)	(4.87%)
Federal Special	955,391	1,417,366	1,419,504	819,506	2,372,757	2,239,010	(133,747)	(5.64%)
Other	0	152,044	0	0	152,044	0	(152,044)	(100.00%)
Total Fuods	\$4,358,497	\$5,137,842	\$5,289,382	\$4,652,690	\$9,496,339	\$9,942,072	\$445,733	4.69%

Agency Description

Mission Statement: Montana Library Commission (MLC) meets the information needs of Montana government agency management and staff, ensures all Montana citizens have access to information created by their government, supports the role of all Montana libraries in delivering quality library content and services to their patrons, works to strengthen local community public libraries, ensures that Montanans who are visually or physically handicapped are provided access to library resources, and measures its successes by its patrons' and partners' successes.

MLC, authorized in Section 22-1-101, MCA, administers state and federal library funding to operate and maintain the state library, oversees the six library federations located throughout Montana, and develops library oriented statewide long-range planning, policy, and service coordination.

Additional responsibilities of the commission include: assisting all tax-supported libraries and local governments wishing to establish or improve libraries; maintaining an audio book library for use by Montanans unable to utilize printed materials; providing access to state publications; and maintaining and providing information related to Montana's plant and animal species and habitat and comprehensive natural resources (land) information.

Agency Highlights

Montana Library Commission Major Budget Highlights	
Funding increases of \$0.4 million from the 2009 biennium to the 2011 biennium are due to:	
<ul style="list-style-type: none"> ◆ Statewide present law adjustments ◆ Standard base adjustments that include biennial appropriation of grant awards 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ General fund savings of \$192,000 over the biennium could be achieved ◆ MSL does not have measurable time-bound objectives for its goals in the 2011 biennium 	

Agency Discussion

The executive proposes increasing the 2011 biennial budget for MLC by 4.7 percent when compared to the 2009 biennium. The executive also proposes increasing the percentage of the budget supported by general fund by 6.17 percent, from 51.12 percent of the budget in the 2009 biennium to 57.29 percent in the 2011 biennium. A significant portion of the change is due to a proposed funding switch. The executive proposes to eliminate Natural Resource Operations state special revenues and replace the funding with \$251,401 in general fund. State special revenues are proposed to decrease by 2.03 percent between the biennia. Federal special revenue support decreases slightly.

LFD ISSUE

General Fund Savings

Federal Library Services and Technology Act (LSTA) grant funds are used to support various grant activities and provide support for personal services and operating expenses. MLC has received these funds for several biennia and is budgeted to receive them in the next biennium. The legislature budgets these fund by including a set amount, which has not changed in several biennia, for personal services and the remainder in grants. During the interim and as projects require, the agency transfers a portion of the grant funds into personal services and operating expenses. Because the amount of LSTA funding used to support MSL personal services, operating expenses, and grants varies from year to year, the executive moves the grant expenditures over the set amount of personal services and the operating expenses into the grants category for the base year of each biennium. The adjusted base expenditures are then used to establish the budget for the next biennium.

Statewide present law adjustments fund changes in personal services, legislatively required vacancy savings percentages, inflation or deflation, and fixed costs. One of the effects of moving MLC grant expenditures from the operating expenses into the grants category is additional general fund is needed to support the present law adjustments for the MLC. Figure 1 shows the budgeted statewide present law adjustments funding between FY 2006 and FY 2011.

As shown in Figure 1, general fund provided all support for the adjustments. Funding statewide present law adjustments in this manner increases the amount of general fund supporting the personal services and operating expenses compared to the support provided by

state special revenues or LSTA grant funds. This is considered a funding switch. Figure 2 shows the funding used by MLC to support the actual costs of personal services and operating expenses in the base years of FY 2006 and FY 2008.

Figure 1						
Montana Library Commission						
Statewide Present Law Adjustments						
SWPLA for Personal Services	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Budgeted						
General Fund	\$117,228	\$106,356	\$302,841	\$336,741	\$212,233	\$200,086
State Special Revenue Funds	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Total	<u>\$117,228</u>	<u>\$106,356</u>	<u>\$302,841</u>	<u>\$336,741</u>	<u>\$212,233</u>	<u>\$200,086</u>

**LFD
ISSUE (CONT.)**

As shown in Figure 2, state special revenue funds and federal special revenue funds provided significant support for both personal services and operating expenses during both base years. If the percentages of funding provided by state special revenue and federal special revenue in the 2008 base year were used to fund present law adjustments in FY 2010 and FY 2011, general fund would be reduced by \$99,209 in FY 2010 and \$93,103 in FY 2011.

A portion of the federal revenues are used to provide grants for library services throughout Montana. Requiring state and federal special revenues to support statewide present law adjustments may decrease the amount of funds available for allocation to the various non-profits and local governments receiving grants through the program.

Options include:

- Reduce general fund appropriations for statewide present law adjustments by \$192,312 over the biennium and appropriate a corresponding amount from state and federal special revenues
- Fund the statewide present law adjustments with general fund as requested by the executive.

Figure 2 Montana Library Commission Personal Services and Operating Expenses Base Years 2006 and 2008				
	FY 2006	Percentage of Total	FY 2008	Percentage of Total
Actual Expenditures				
Personal Services				
General Fund	\$755,130	46.99%	\$1,127,893	55.78%
State Special Revenue	291,892	18.16%	242,528	11.99%
Federal Special Revenue	<u>560,149</u>	<u>34.85%</u>	<u>651,713</u>	<u>32.23%</u>
Total Personal Services	<u>\$1,607,172</u>	<u>100.00%</u>	<u>\$2,022,133</u>	<u>100.00%</u>
Operating Expenses				
General Fund	\$589,943	40.63%	\$904,162	51.12%
State Special Revenue	607,290	41.82%	676,280	38.24%
Federal Special Revenue	<u>254,752</u>	<u>17.55%</u>	<u>188,244</u>	<u>10.64%</u>
Total Operating Expenses	<u>\$1,451,985</u>	<u>100.00%</u>	<u>\$1,768,687</u>	<u>100.00%</u>

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 interim.

The LFC monitored MLC's goal to provide libraries, agencies, partners, and patrons with convenient, high quality, and cost-effective access to library content and services. Measurable objectives for this goal included:

- By fiscal year end 2008, implement Geographic Information System (GIS) technology combining and enhancing the best attributes of the Natural Resource Information System (NRIS) clearinghouse to catalog and provide access to geospatial datasets held at MSL. To provide an interface that allows users to publish metadata records, organize groups and provide access to geospatial data held at their organizations. This is referred to as the GIS portal.
- By fiscal year end 2009, the value of E-content services will be measured by an annual increase in E-content user statistics of at least 5 percent, documentation of user demand for additional e-content services, and anecdotal reports from librarians and patrons indicating access to E-content made a difference in their lives like helping them to accomplish an educational or personal growth goal.

Successes

As measured at October 2008, the GIS portal was made available for public access in September 2008. The portal included records of the data collections of NRIS; the Montana Base Map Service Center; Montana Fish, Wildlife, and

Parks; and the Flathead County GIS department. While the date the public gained access to the portal was slightly beyond the original target (approximately 2 months), the agency was able to test a prototype by March 2008 and complete the initial metadata catalog by June 2008. Members of the Legislative Finance Committee Education Subcommittee determined the project was on-track.

The first phase of E-content services was launched July 2008. The content includes 13,000 audio book titles, 5,000 music titles, and 4,000 movie titles. 15 Montana libraries are participating in E-content services.

2011 Biennium Major Goals

MLC is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goals are:

- MSL acquires and manages relevant quality content that meets the needs of Montana library partners and patrons
- Montana State Library (MSL) provides libraries, agencies, and its partners and patrons with convenient, high quality, and cost-effective access to library content and services

LFD ISSUE

MSL does not have measurable time-bound objectives for its goals in the 2011 biennium

The objectives included in the executive's budget request are not measurable or time-bound. For example, the objectives for the goal of acquiring and managing relevant quality content that meets the need of Montana library partners and patrons includes the following:

- Focus MSL collection in three areas: Montana state publications, professional development materials for librarians, and information about the natural resources of Montana.
- Discontinue the acquisition of "trade" books, magazines, and databases
- Create a profusion of Montana-related digital collections by giving libraries the tools to create collections, and library patrons with access to digital snapshots of their cultural heritage
- Increasingly migrate the State Depository Library Program toward digital formats for discovery, request, and delivery

The above objectives do not include measurements or a period of time in which they will be accomplished. Will the MSL collection increase the percentage of the collection in the areas outlined in the objective in the 2011 biennium? If so, by what amounts and in which areas? When will the MLC discontinue purchasing trade books, and how does this affect the budget?

The executive is proposing \$9.6 million over the 2011 biennium to support the operations of the MLC. The Legislative Finance Committee Education Subcommittee recommends that as part of its budget deliberations during the 2009 Legislative Session, the Joint Appropriations Subcommittee on Education discuss the MSL goal of providing libraries, agencies, and its partners and patrons with convenient, high quality, and cost-effective access to library content and services.

Option:

As the agency is required by statute to provide objectives sufficiently specific that the legislature can base appropriation decisions on them, the legislature may wish to discuss with MLC how it can provide appropriately written objectives in relation to its goals so that success can be measured.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table Statewide Library Resources							
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011	
01000 Total General Fund	\$ 2,348,128	53.9%	\$ 2,866,301	54.2%	\$ 2,829,607	60.8%	
01100 General Fund	2,348,128	53.9%	2,866,301	54.2%	2,829,607	60.8%	
02000 Total State Special Funds	1,054,978	24.2%	1,003,577	19.0%	1,003,577	21.6%	
02026 Nris State Special	253,570	5.8%	253,570	4.8%	253,570	5.4%	
02340 Coal Sev. Tax Shared Ssr	550,007	12.6%	750,007	14.2%	750,007	16.1%	
02576 Natural Resources Operations Ssr Fu	251,401	5.8%	-	-	-	-	
03000 Total Federal Special Funds	955,391	21.9%	1,419,504	26.8%	819,506	17.6%	
03018 Library Commission	925,391	21.2%	1,389,504	26.3%	789,506	17.0%	
03930 Nris Federal Funds	30,000	0.7%	30,000	0.6%	30,000	0.6%	
06000 Total Proprietary Funds	-	-	-	-	-	-	
06021 Mt Shared Catalog	-	-	-	-	-	-	
Grand Total	\$ 4,358,497	100.0%	\$ 5,289,382	100.0%	\$ 4,652,690	100.0%	

The MLC is funded through a combination of general fund, state special revenue, and federal special revenue. General fund supports the interlibrary loan reimbursement program, state aid to libraries throughout Montana, NRIS, and general operations.

State special revenue includes funding for the following:

- Coal severance tax shared account partially funds general operations, the periodic database, and library federation grants to assist local libraries in providing basic services
- Resource Indemnity Trust (RIT) revenues from natural resource operations account partially funds the Natural Heritage Program, NRIS, and the water information system
- Assessments from the departments of Fish, Wildlife, and Parks, Transportation, Natural Resources and Conservation, Environmental Quality, and the Montana University System partially fund NRIS core services

LFD COMMENT The coal tax shared revenue fund is statutorily designated for libraries, conservation districts, and the Growth Through Agriculture program. The Growth Through Agriculture program funds grants and operations of the Agriculture Development Council which is administratively attached to the Department of Agriculture. Figure 3 below summarizes the condition of the fund.

The executive has included \$1.4 million of one-time only requests from this fund. These requests are for grants to local libraries, conservation districts and programs within the university system as well as a software purchase. These one-time-only requests will significantly reduce the fund balance in the account. The fund remains structurally balanced as the ongoing expenditures do not exceed the projected revenues.

Figure 3 Montana Library Commission Coal Tax Shared State Special Revenue				
	FY 2008	FY 2009	FY 2010	FY 2012
Beginning Balance	\$251,805	\$942,933	\$1,708,969	\$1,001,284
<u>Expenditures</u>				
Montana State Library	550,007	550,007	750,007	750,007
Natural Resources & Conservation	866,781	866,779	1,760,936	1,810,409
Agriculture	371,742	614,368	838,476	809,494
Total Expenditures	1,788,530	2,031,154	3,349,419	3,369,910
Revenues	2,479,658	2,797,190	2,641,734	2,660,793
Ending Fund Balance	\$942,933	\$1,708,969	\$1,001,284	\$292,167

**LFD
COMMENT**

Federal funds support library services through LSTA grant funds. Grants are received each year, but can be spent over two federal years. Federal years begin in October rather than July. As a result, a LSTA grant received in FY 2009 can be spent in FY 2009, FY 2010, and the first three months of FY 2011. Previous legislatures have appropriated LSTA as a biennial appropriation to align the funding with the expenditures in the first year. Figure 4 illustrates these changes for the current biennium.

Figure 4
Montana Library Commission
Library Services and Technology Act Funding

	2008 Grant Appropriation	Adjustment for 2010 LSTA Grant	Adjustment for 2011 LSTA Grant
Total Costs	\$535,887	\$464,113	(\$135,887)

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	2,348,128	2,348,128	4,696,256	82.45%	4,358,497	4,358,497	8,716,994	87.68%
Statewide PL Adjustments	220,826	208,679	429,505	7.54%	(105,691)	(117,735)	(223,426)	(2.25%)
Other PL Adjustments	19,779	20,387	40,166	0.71%	1,010,409	410,916	1,421,325	14.30%
New Proposals	277,568	252,413	529,981	9.30%	26,167	1,012	27,179	0.27%
Total Budget	\$2,866,301	\$2,829,607	\$5,695,908		\$5,289,382	\$4,652,690	\$9,942,072	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2010						Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(141,155)					(137,047)
Vacancy Savings					(73,558)					(73,722)
Inflation/Deflation					828					1,320
Inflation/Deflation					4,832					5,354
Fixed Costs					103,362					86,360
Total Statewide Present Law Adjustments					(\$105,691)	(\$117,735)				
DP 1 - Communications & Marketing Coordinator										
	0.25	15,425	0	0	15,425	0.25	16,033	0	0	16,033
DP 2 - LSTA Grants										
	0.00	0	0	790,630	790,630	0.00	0	0	190,529	190,529
DP 3 - Standard Cost Adjustment										
	0.00	4,354	0	0	4,354	0.00	4,354	0	0	4,354
DP 4 - Library Courier/Delivery Service Pilot - OTO										
	0.00	0	200,000	0	200,000	0.00	0	200,000	0	200,000
Total Other Present Law Adjustments										
	0.25	\$19,779	\$200,000	\$790,630	\$1,010,409	0.25	\$20,387	\$200,000	\$190,529	\$410,916
Grand Total All Present Law Adjustments					\$904,718	\$293,181				

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Market Rate** – As of October 2008, MLC estimates employees will be at 92 percent of the 2008 market survey, which was below the agency-wide 95 percent goal. MLC makes an exception to the agency policy of hiring positions at the entry market ratio for librarians and computer programmers and web developers due to recruitment issues.
- o **Vacancy** – MLC has difficulty recruiting computer programmers due to outside market competition and librarians because of low market rates in Montana. MLC used pay plan adjustments, pay exceptions, alternative shift options, and application of the 0.6 percent discretionary pay included in HB 13 to address recruitment and retention issues with positions within the agency.
- o **Legislatively applied vacancy savings** – During the 2009 biennium, MLC had positions open which required multiple recruitments to fill. This generated excess personal services appropriation authority above the legislatively applied vacancy savings rate.
- o **Pay Changes** – Market adjustments to align staff pay to the agency market policy resulted in pay increases outside of the increases in HB 13 for about 20 percent of the staff. MLC used vacancy savings and the 0.6 percent included in HB 13 to fund these increases.
- o **Retirements** – MLC anticipates 20 percent of its employees will be eligible for full retirement in the 2011 biennium. As of October 2008, the estimated compensated absence liability for these positions would be \$88,000.

DP 1 - Communications & Marketing Coordinator - The executive proposes expanding the FTE for the communications and marketing coordinator from 0.25 FTE to 0.75 FTE in FY 2010 and 1.00 FTE in FY 2011. The Communications and Marketing Coordinator provides guidance and direction to MLC staff in presenting the Montana State Library and its products and services to the media and Montanans.

DP 2 - LSTA Grants - The executive recommends increasing the federal authority to spend estimated Library Service and Technology Act (LSTA) grant awards and realign the biennial appropriation of the awards into the first year of the biennium, resulting in a smaller adjustment in FY 2011.

DP 3 - Standard Cost Adjustment - The decision package reestablishes zero-based per diem for library commissioners and volunteer insurance. It also includes additional funds for legal fees in the Department of Justice, which increase \$504 in each year of the biennium.

DP 4 - Library Courier/Delivery Service Pilot - OTO - The executive proposes include \$200,000 state special revenue each year to fund a Library Courier/Delivery Service Pilot Project. The movement of interlibrary loan items between libraries has increased due to increased electronic library catalog searches. This proposal would provide one-time-only funding of \$200,000 state special revenue for each year of the 2011 biennium to research and pilot cost effective alternatives such as utilizing other existing statewide courier networks or purchasing multiple copies of material to minimize reliance on escalating postal fees. The funding can also be used to increase resources for libraries that incur shipping costs when sharing materials.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				FTE	Fiscal 2011			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 5 - Natural Resources Operations Acct - Funding Switch										
01	0.00	251,401	(251,401)	0	0	0.00	251,401	(251,401)	0	0
DP 7 - Training Lab Replacement - Bien/OTO										
01	0.00	25,000	0	0	25,000	0.00	0	0	0	0
DP 6101 - Fixed Cost Workers Comp Mgmt Pgm										
01	0.00	1,167	0	0	1,167	0.00	1,012	0	0	1,012
Total	0.00	\$277,568	(\$251,401)	\$0	\$26,167	0.00	\$252,413	(\$251,401)	\$0	\$1,012

DP 5 - Natural Resources Operations Acct - Funding Switch - The executive proposes eliminating \$251,401 of support provided through the natural resources operations account. To offset the operational costs previously supported by the state special revenues the executive proposes providing \$251,401 general fund each year of the biennium. Funding supports staff and operating expenses of the Natural Resource Information System (NRIS).

LFD COMMENT

The 2006 Legislative Finance Committee studied the uses of the resource indemnity trust. The study reviewed the use of the funds to support NRIS and concluded the use meet with requirements for statutory uses of the fund. The Resource Indemnity Trust related natural resources operations fund was created by HB 116 of the 2007 Legislature to provide a specific fund for general operations of state natural resource agencies. This fund provides operational support to the Department of Natural Resources, the Department of Environmental Quality, the Montana Bureau of Mines and Geology, the State Library Commission, and the Water Court. Funding in the natural resource operations account has historically supported NRIS costs. Eliminating this funding increases general fund support to MSL by almost 10 percent. However, LFD has determined that the revenues to the fund are unable to continue to support all activities. For a complete discussion on RIT and related accounts see the agency narrative section of the Department of Environmental Quality.

DP 7 - Training Lab Replacement - Bien/OTO - The executive proposes a biennial general fund appropriation of \$25,000 one-time-only funding to replace approximately 12 existing training lab computers. The computers are used in-house and around the state by the state library and other state agencies for library related training.

DP 6101 - Fixed Cost Workers Comp Mgmt Pgm - The Workers' Compensation Management Program at the Department of Administration was funded by the 2007 Legislature with a one-time-only (OTO) general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Language and Statutory Authority

The executive recommends the following language for inclusion in HB 2.

“Biennial appropriations of \$205,660 in general fund and \$700,000 in federal funds for grants to local libraries.”

LFD COMMENT

The executive may mean to propose the following language:

Of the \$9,942,072 in total funds appropriated to MSL, the amount of \$205,660 general fund money and \$700,000 in federal funds money are biennial appropriations for grants to local libraries.

Proprietary Program Description

The following table summarizes the total executive budget proposal for the program by year.

Montana Shared Catalogue - Proposed Budget						
		FY 2008	FY 2010	FY 2010	FY 2011	FY 2011
		Actual Base	Adjustments	Total	Adjustments	Total
FTE		0.00	0.50	0.00	0.50	0.00
61000	Personal Services	\$0	\$23,052	\$23,052	\$23,058	\$23,058
62000	Operating Expenses	47,956	148,753	196,709	213,747	261,703
63000	Equipment	0	100,000	100,000	0	0
Total Costs		<u>\$47,956</u>	<u>\$271,805</u>	<u>\$319,761</u>	<u>\$236,805</u>	<u>\$284,761</u>

Proprietary Program Description

The Montana Shared Catalog is a cooperative project involving over 90 libraries. Public, school, academic, medical, and other special libraries have pooled resources to purchase a library automation system. Member's benefits include shared expertise and the ability to provide additional services to library customers. The Montana State Library became the fiscal agent for the Shared Catalog in FY 2008.

Funding

The Montana Shared Catalog is funded entirely with enterprise type proprietary funds. Because the proprietary funds do not require an appropriation, they are not typically included in appropriation tables. The source of the funding is the member fees paid by the libraries to belong to the Montana Share Catalog. State support is not appropriated to the proprietary fund.

Program Narrative*Proprietary Revenues and Expenses*

The Shared Catalog members pay membership dues that are used to pay operating expenses. There are approximately 90 member libraries that pay membership fees totaling about \$219,000 per year. Expenditures include payment of required fees for software licensing, user interface, and indexing to make the system run; payment for required yearly catalog and director station maintenance; a travel budget that includes meetings twice a year to make decisions on direction of the shared catalog and conference attendance; training to new library members as well as ongoing training to current members; and equipment replacement. A request for a new 0.50 FTE for a technical assistant and a request for one-time-only funding for server replacement are included in the 2011 biennium.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative.

Montana Shared Catalog - Present Law Adjustments					
		FY 2010		FY 2011	
		FTE	Costs	FTE	Costs
PL 0000	Statewide Adjustments	<u>0.00</u>	<u>\$1</u>	<u>0.00</u>	<u>\$1</u>
Total Present Law		<u>0.00</u>	<u>\$1</u>	<u>0.00</u>	<u>\$1</u>

New Proposals

Montana Shared Catalog - New Proposals					
		FY 2010		FY 2011	
		FTE	Costs	FTE	Costs
DP 5115	Montana Shared Catalog	<u>0.50</u>	<u>\$271,804</u>	<u>0.50</u>	<u>\$236,804</u>
Total Costs		<u>0.50</u>	<u>\$271,804</u>	<u>0.50</u>	<u>\$236,804</u>

DP 5115 – Montana Shared Catalog The executive requests \$508,608 over the biennium to provide for personal services costs for 0.50 FTE and related operating costs to support the Montana Shared Catalog operations. The proposal includes \$100,000 to replace the server that runs the shared catalog automation system.

Proprietary Rate Explanation

In accord with the written agreement each participating Montana Shared Catalog (MSC) library signs, annual fees are assessed of each library established on the basis of a membership-approved cost formula. The goal of the cost formula is to distribute MSC annual operational costs as fairly and evenly as possible based on the following:

- o the individual library's titles count,
- o patron count,
- o circulation count,
- o equal share contribution

Libraries that fall below a set threshold in their title counts and patron counts receive a fixed discount in accord with criteria set forth in the cost formula.

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	61.14	61.14	61.14	61.14	61.14	61.14	0.00	0.00%
Personal Services	2,766,436	3,162,114	3,149,692	3,147,960	5,928,550	6,297,652	369,102	6.23%
Operating Expenses	1,224,784	1,295,675	1,297,284	1,265,426	2,520,459	2,562,710	42,251	1.68%
Equipment & Intangible Assets	49,442	8,904	28,916	29,711	58,346	58,627	281	0.48%
Grants	77,000	78,861	77,000	77,000	155,861	154,000	(1,861)	(1.19%)
Benefits & Claims	0	0	0	0	0	0	0	n/a
Transfers	50,503	50,503	50,503	50,503	101,006	101,006	0	0.00%
Total Costs	\$4,168,165	\$4,596,057	\$4,603,395	\$4,570,600	\$8,764,222	\$9,173,995	\$409,773	4.68%
General Fund	2,668,353	2,721,748	2,823,092	2,819,227	5,390,101	5,642,319	252,218	4.68%
State Special	78,768	274,138	140,471	140,700	352,906	281,171	(71,735)	(20.33%)
Federal Special	620,578	643,738	648,211	634,408	1,264,316	1,282,619	18,303	1.45%
Other	800,466	956,433	991,621	976,265	1,756,899	1,967,886	210,987	12.01%
Total Funds	\$4,168,165	\$4,596,057	\$4,603,395	\$4,570,600	\$8,764,222	\$9,173,995	\$409,773	4.68%

Agency Description

The Montana Historical Society (MHS), authorized by Title 22-3-101, MCA, exists for the use, learning, culture, and enjoyment of the citizens of, and visitors to, the State of Montana. MHS acquires, preserves, and protects historical records, art, documents, photographs, museum objects, historical places, sites, and monuments. MHS maintains an historical museum, a library and archives, provides educational programs and services for teachers and the general public, and publishes the state historical magazine and newsletter. MHS also administers preservation and antiquities acts, supports commissions with state historical orientation, and provides technical assistance to all Montana museums, historical societies, preservation programs, and owners of historic resources.

Agency Highlights

Montana Historical Society Major Budget Highlights	
♦	The executive proposes increasing the MHS budget 4.7 percent when compared to the 2009 biennium, primarily due to statewide present law adjustments
♦	The agency reorganized and created the Education Program
Major LFD Issues	
♦	State special and proprietary funding levels are not supported and may require additional general fund or lowered expenditures
♦	Program goals do not have measurable and time-bound objectives

Agency Discussion

The Montana Historical Society executes its mandated duties with 61.14 FTE. In FY 2008 the agency reorganized its functions to add the Education Program. Funding for the program was created through appropriation and FTE transfers from the Administration, Museum, Publications, and Historic Preservation Programs. In addition, MHS shifted other FTE among programs. Figure 1 below illustrates the FTE program shifts.

Over the course of FY 2008, the agency modified or transferred among programs almost 30 percent of the positions within the agency. The transfers and modifications increased personal services costs to the general fund above what the legislature budgeted in the 2009 biennium. This is because the general fund supporting each program varies and the agency did not transfer the funding support for some of the FTE when the FTE were transferred. For further discussion, see the LFD Issues in the program sections of this report.

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Agency Market** – The agency's target market ratio for the 2011 biennium under the 2008 market survey is 106 percent depending on market increases and pay increases authorized by the legislature

LFD COMMENT

The broadband pay plan was implemented in the 2009 biennium. Part of the rationale for its implementation was using the bands and progression to market salaries to address recruitment and retention issues within the State of Montana. The market salary is defined in policy as the midpoint of the pay rate based on the average base salary that other employers pay to employees in comparable occupations. State policy does not require state agencies to set their market salaries at 100 percent of the market salary. Agencies can set their target market ratios above the market salary as long as they can fund the personal service costs. Issues with how pay changes were funded are discussed in the program sections of this report.

- o **Obstacles** – MHS plans to use vacancy savings and other unexpended funds to move to the target market ratio during the 2011 biennium. Obstacles to achieving this plan include:
 - Lack of funding
 - Lack of vacancies occurring in the biennium.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2011 Biennium Budget						
Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
01 Administration Program	\$ 2,435,149	\$ 231,171	\$ 169,030	\$ 864,369	\$ 3,699,719	40.33%
02 Research Center	1,771,719	-	-	198,969	1,970,688	21.48%
03 Museum Program	643,295	50,000	-	137,201	830,496	9.05%
04 Publications Program	197,937	-	-	693,304	891,241	9.71%
05 Education Program	436,877	-	-	66,136	503,013	5.48%
06 Historic Preservation Program	157,342	-	1,113,589	7,907	1,278,838	13.94%
Grand Total	\$ 5,642,319	\$ 281,171	\$ 1,282,619	\$ 1,967,886	\$ 9,173,995	100.00%

Figure 1 Montana Historical Society FTE Shifts Between Programs			
Program	2008	2010	Difference
	Budgeted FTE	Requested FTE	
Administration Program	19.74	17.79	-1.95
Research Center	14.75	15.75	1.00
Museum Program	11.15	9.00	-2.15
Publications Program	5.75	4.00	-1.75
Education Program	0.00	5.85	5.85
Historic Preservation Program	9.75	8.75	-1.00
Total	61.14	61.14	0.00

As shown in the table, the MHS is supported through a combination of general fund, state and federal special revenues, and proprietary funds. MHS proprietary funds are generated through sales of Montana, The Magazine of Western History, books, and merchandise in the museum store and Research Center. Unlike other proprietary funds which have a rate approved by the legislature, MHS proprietary funds are appropriated by the legislature. Discussion of issues related to the revenue estimates of the proprietary funds are discussed in the narrative sections of each program.

LFD ISSUE

Additional general fund required to fully support MHS operations as proposed

The funding as proposed by the executive has several issues that are discussed in the funding sections of the program narratives that follow. In several programs, state special and proprietary funding appropriations appear overly optimistic given the current economic climate and historical revenue patterns for the funds. If the legislature wishes to fully support the operations of the MHS as proposed by the executive it would appear an additional \$156,500 in general fund would be required. The specific issues related to the funding of each program are discussed in detail in the program sections of this narrative.

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

Statutory Appropriations Montana Historical Society					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<u>Direct Bearing on Agency Operations</u>					
Lewis and Clark license plates	02-15-151	SSR	\$50,345	\$50,345	\$50,345
Lodging facility used tax	15-65-121	SSR	<u>133,664</u>	<u>153,945</u>	<u>154,428</u>
Total Statutory Appropriations			<u>\$184,009</u>	<u>\$204,290</u>	<u>\$204,773</u>

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	2,668,353	2,668,353	5,336,706	94.58%	4,168,165	4,168,165	8,336,330	90.87%
Statewide PL Adjustments	262,945	250,107	513,052	9.09%	590,233	569,570	1,159,803	12.64%
Other PL Adjustments	(73,543)	(73,543)	(147,086)	(2.61%)	(76,527)	(76,527)	(153,054)	(1.67%)
New Proposals	(34,663)	(25,690)	(60,353)	(1.07%)	(78,476)	(90,608)	(169,084)	(1.84%)
Total Budget	\$2,823,092	\$2,819,227	\$5,642,319		\$4,603,395	\$4,570,600	\$9,173,995	

Agency Issues

**LFD
ISSUE**

Lodging Use Facility Taxes Funding

Over the past several biennia the legislature has requested that the Department of Commerce (Commerce) use a portion of its statutorily appropriated lodging facility use taxes to fund historical interpretation and the Scriver collection costs. Commerce has provided MHS this funding from the 67.5 percent of lodging facility use taxes statutorily appropriated to it. Commerce transferred \$454,167 to MHS in FY 2008. This funding supported \$4,415 in personal services and \$449,752 in operating costs within the Administrative, Museum, and Education Programs. (MHS does have a statutory appropriation of lodging facility use taxes, but they are earmarked to support the Sites and Signs Program.) Previous legislatures included language within HB 2 which outlined the amount of funding the legislature intended Commerce to allocate for MHS's use. During the 2007 Legislature, the code commissioner advised that including the language within HB 2 was not appropriate.

The legislature approved including within the LFD narrative its intent to have Commerce provide funding for the MHS. The legislature may wish to consider if it wants to continue to have Commerce provide lodging facility use taxes in the 2011 biennium. MHS estimates the cost of continuing the support to historical interpretation and the Scriver collection to be \$468,611 in FY 2010 and \$482,669 in FY 2011.

As compliance with the legislative intent is voluntary on the part of Commerce, ensuring MHS receives additional lodging facility use taxes in the amounts intended by the legislature requires changes to statute governing the distribution of the lodging facility use taxes.

Options:

- o Request a committee bill to change the 67.5 percent of lodging use facility tax statutorily appropriated to Commerce to 64.5 percent and reallocate the funds to support MHS historical interpretation and museum operations. The committee bill would increase the funding percentage to MHS to 4.0 percent
- o Continue to put intent language in the narrative

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	17.79	17.79	17.79	17.79	17.79	17.79	0.00	0.00%
Personal Services	905,975	994,700	979,699	981,688	1,900,675	1,961,387	60,712	3.19%
Operating Expenses	768,273	860,323	873,018	839,814	1,628,596	1,712,832	84,236	5.17%
Equipment & Intangible Assets	20,544	0	12,750	12,750	20,544	25,500	4,956	24.12%
Grants	0	0	0	0	0	0	0	n/a
Benefits & Claims	0	0	0	0	0	0	0	n/a
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$1,694,792	\$1,855,023	\$1,865,467	\$1,834,252	\$3,549,815	\$3,699,719	\$149,904	4.22%
General Fund	1,134,351	1,220,788	1,228,942	1,206,207	2,355,139	2,435,149	80,010	3.40%
State Special	76,292	97,110	115,471	115,700	173,402	231,171	57,769	33.32%
Federal Special	156,879	132,880	84,515	84,515	289,759	169,030	(120,729)	(41.67%)
Other	327,270	404,245	436,539	427,830	731,515	864,369	132,854	18.16%
Total Funds	\$1,694,792	\$1,855,023	\$1,865,467	\$1,834,252	\$3,549,815	\$3,699,719	\$149,904	4.22%

Program Description

The Administration Program provides supervision, administration, and coordination of the six programs in the Montana Historical Society. Program staff is responsible for the management, planning, direction, and leadership of the society. Activities include public information, payroll/personnel, fund raising, financial reporting, business management, security, building management, community outreach, historic research, historic interpretation, and the society store.

Program Highlights

Administrative Program Major Budget Highlights	
♦	The Administration Program budget increases 4 percent when compared to the 2009 biennium due primarily to statewide present law adjustments
♦	Increases in personal services are 3 percent due to a combination of reductions in FTE and increases for statewide present law adjustments
Major LFD Issues	
♦	General fund savings of \$24,000 are available
♦	General fund is increased to support pay raises previously supported by private, nonbudgeted funds

Program Narrative

The Administration Program 2011 budget is 4 percent higher when compared to the 2009 biennium budget. The overall increase to the program would have been substantially higher, but 1.95 FTE and \$118,000 in personal service appropriations were transferred to the Research Center and the Education Program.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table Administration Program						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 1,134,351	66.9%	\$ 1,228,942	65.9%	\$ 1,206,207	65.8%
01100 General Fund	1,134,351	66.9%	1,228,942	65.9%	1,206,207	65.8%
02000 Total State Special Funds	76,292	4.5%	115,471	6.2%	115,700	6.3%
02041 Mt Hist. Society Donations	76,292	4.5%	115,471	6.2%	115,700	6.3%
03000 Total Federal Special Funds	156,879	9.3%	84,515	4.5%	84,515	4.6%
03021 Historic Sites Preservation	156,879	9.3%	84,515	4.5%	84,515	4.6%
06000 Total Proprietary Funds	327,270	19.3%	436,539	23.4%	427,830	23.3%
06071 Merchandise - Historical Soc	261,485	15.4%	301,088	16.1%	301,088	16.4%
06073 Historical Society Management	65,785	3.9%	135,451	7.3%	126,742	6.9%
Grand Total	\$ 1,694,792	100.0%	\$ 1,865,467	100.0%	\$ 1,834,252	100.0%

The program is funded with a combination of general fund, state special revenue funds from donations, federal funds generate through indirect cost recoveries, and proprietary funds from museum entrance fees and merchandise sales.

**LFD
ISSUE****General fund savings available in the Administration Program**

Review of the federal special revenues for the Administration Program shows the revenues proposed by the executive are lower than LFD estimates of the indirect cost recoveries generating the federal revenues. The amount of the indirect cost recoveries is based on two components – the federal grant amount and the indirect cost rate. In FY 2010 and FY 2011 both components of the rate change resulting in less federal indirect cost revenues. The executive proposes reducing the federal revenue supporting this program below the amount of indirect costs which will be generated from the federal grant. Figure 2 shows the grant amount for FY 2010 and FY 2011 and the resulting indirect costs generated for the Administration Program.

Figure 2
Montana Historical Society
Federal Indirect Cost Recoveries

	FY 2010	FY 2011
Total grant revenues	\$668,000	\$668,000
Grants		
Cities and towns	82,500	82,500
University of Montana	25,000	25,000
Historic Barns	10,000	10,000
Total Grants	117,500	117,500
Administrative expenses	\$550,500	\$550,500
Indirect costs at 19.75 percent	\$108,724	\$108,724
Indirect costs as proposed by the executive	84,515	84,515
Available for legislative appropriation	\$24,209	\$24,209

Option:

Increase federal revenues supporting the Administration Program \$24,209 in each year of the biennium and reduce general fund by the same amount

**LFD
COMMENT**

Proprietary funds – The executive proposes proprietary funding to support the Administration Program from two sources, the merchandise fund and the historical society management fund. The historical society management fund generated \$74,500 in revenues in FY 2008. The executive proposes appropriations for this funding source which match projected revenues.

The merchandise proprietary fund revenues are generated through sales in the museum store. In FY 2008 merchandise sales generated \$233,400 in revenues. Fund balance was used to provide additional support for the program. The executive proposes funding of \$301,088 and in both FY 2010 and FY 2011 from this fund. If revenues remain static over the biennium, fund balance will be needed to provide the additional proprietary support. LFD calculates the fund balance will be depleted in FY 2011 and notes that to maintain program support in future biennia will require additional funding sources.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	1,134,351	1,134,351	2,268,702	93.16%	1,694,792	1,694,792	3,389,584	91.62%
Statewide PL Adjustments	139,931	119,232	259,163	10.64%	209,065	178,141	387,206	10.47%
Other PL Adjustments	(40,580)	(40,580)	(81,160)	(3.33%)	(40,580)	(40,580)	(81,160)	(2.19%)
New Proposals	(4,760)	(6,796)	(11,556)	(0.47%)	2,190	1,899	4,089	0.11%
Total Budget	\$1,228,942	\$1,206,207	\$2,435,149		\$1,865,467	\$1,834,252	\$3,699,719	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----						-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					114,543					116,615
Vacancy Savings					(40,819)					(40,902)
Inflation/Deflation					486					500
Fixed Costs					134,855					101,928
Total Statewide Present Law Adjustments					\$209,065 *	\$178,141 *				
DP 5 - Pgm 01 Correct Duplicate Budget Entry	0.00	(40,580)	0	0	(40,580)	0.00	(40,580)	0	0	(40,580)
Total Other Present Law Adjustments										
	0.00	(\$40,580)	\$0	\$0	(\$40,580)	0.00	(\$40,580)	\$0	\$0	(\$40,580)
Grand Total All Present Law Adjustments					\$168,485	\$137,561				

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Market Rate** – As of October 2008, the Administrative Program estimates employees will be at 96 percent of

the 2008 market survey, after implementing the HB 13 pay adjustments. This is below the agencies target of 106 percent of market.

- o **Vacancy** – The program had few vacant positions and does not have recruitment and retention issues.
- o **Legislatively applied vacancy savings** – The program was able to attain the legislatively applied vacancy levels using current appropriations and vacancies
- o **Pay Changes** – Market adjustment outside of the increases included in HB 13 were granted to the majority of the staff in this program. About 46 percent of the costs increases in FY 2009 were outside of HB 13. The Administration Program funded these increases by holding vacant positions open and utilizing private, non-budgeted funds.

LFD COMMENT

General fund increased to support pay raises previously supported by private, nonbudgeted funds

The Administration Program used private funds from its non-budgeted state special revenue account to fund ongoing personal service costs, including pay raises above the pay plan amount. It is unclear if the funds would be available for ongoing support of the pay increases. The Governor has replaced a portion of the increases with general fund, and they are included in the ongoing budget. Personal services costs for this program increased 11.4 percent compared to the budgeted personal service costs for the 17.79 FTE in the 2009 biennium

Option: Reduce MSH funding for personal service costs by the amount of the pay raises previously supported by private funds.

- o **Retirements** – The program anticipates one retirement in the 2011 biennium. Program impacts are anticipated if the position must remain open for a period of time to fulfill legislatively applied vacancy savings.

DP 5 - Pgm 01 Correct Duplicate Budget Entry - The Historical Society moved personal services authority into the operating expense category in the FY 2008 base year. The personal services authority was restored in the base personal services calculations and also in the operating base authority. This request removes \$40,580 general fund from the operating expense category for each year of the 2011 biennium so the authority does not appear in both categories.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				FTE	Fiscal 2011			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 20 - Pgm 01 Align Funding										
01	0.00	(6,950)	2,249	(64,197)	0 *	0.00	(8,695)	2,258	(59,723)	0 *
DP 6101 - Fixed Cost Workers Comp Mgmt Pgm										
01	0.00	2,190	0	0	2,190	0.00	1,899	0	0	1,899
Total	0.00	(\$4,760)	\$2,249	(\$64,197)	\$2,190 *	0.00	(\$6,796)	\$2,258	(\$59,723)	\$1,899 *

DP 20 - Pgm 01 Align Funding - The Historical Society requests changes in funding of \$71,147 in FY 2010 and \$68,418 in FY 2011 from general fund and federal funds to state special and proprietary funds in order to align projected revenues with projected expenditures for the 2011 biennium.

LFD COMMENT

The decision package includes a reduction in federal funds discussed as a LFD Issue in the funding section. The amount of the funding shifts proposed by the executive may change depending on the legislature's decision to increase the federal special revenues supporting this program.

DP 6101 - Fixed Cost Workers Comp Mgmt Pgm - The Workers' Compensation Management Program at the Department of Administration was funded by the 2007 Legislature with a one-time-only (OTO) general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	15.75	15.75	15.75	15.75	15.75	15.75	0.00	0.00%
Personal Services	733,129	795,085	819,858	822,739	1,528,214	1,642,597	114,383	7.48%
Operating Expenses	149,090	122,485	147,461	147,503	271,575	294,964	23,389	8.61%
Equipment & Intangible Assets	18,150	8,904	16,166	16,961	27,054	33,127	6,073	22.45%
Benefits & Claims	0	0	0	0	0	0	0	n/a
Total Costs	\$900,369	\$926,474	\$983,485	\$987,203	\$1,826,843	\$1,970,688	\$143,845	7.87%
General Fund	842,871	847,728	883,502	888,217	1,690,599	1,771,719	81,120	4.80%
State Special	0	2,624	0	0	2,624	0	(2,624)	(100.00%)
Federal Special	0	0	0	0	0	0	0	n/a
Other	57,498	76,122	99,983	98,986	133,620	198,969	65,349	48.91%
Total Funds	\$900,369	\$926,474	\$983,485	\$987,203	\$1,826,843	\$1,970,688	\$143,845	7.87%

Program Description

The Research Center Program consists of the library, archives, and photograph archives functions. This program acquires, organizes, preserves, makes accessible to the public, and assists researchers with, published materials, historic records and manuscripts, photographs and related media, and oral histories illustrative of the history of Montana and the surrounding region. By statute, this program houses the official archives of the state.

Program Highlights

Research Center Program Major Budget Highlights	
♦	The Research Center Program 2011 budget increases 8 percent when compared to the 2009 biennium, primarily due to statewide present law adjustments
♦	Proprietary fund supports the majority of the increases
Major LFD Issues	
♦	Proprietary funds are over appropriated by \$18,000
♦	Program goals do not have measurable time-bound objectives

Program Narrative

The Research Center budget increases 8 percent between the 2009 biennium and the 2011 biennium. As shown in the table above, the majority of the expenditures related to this program are generated from FTE. As part of the overall reorganization of the MHS, an FTE was reclassified and moved to this program. The position was a cashier (0.75 FTE) in the Administration Program and is now an archivist (1.00 FTE) in this program.

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 interim. The LFC monitored the overall agency goal to preserve and make publicly accessible the heritage

resources of the State of Montana. The measurable objectives selected for the Research Center was that the number of processed archival collections available to the public through the Montana Shared Catalog will be increased from 92 percent to 94 percent. This percentage equates to 60 collections each year of the biennium.

Status

As of August 2008, the number of processed archival collections available to the public through the Montana Shared Catalog increased from 91.55 percent to 92.25 percent. The Research Center indicates it is on track to meet the performance measurement target by the end of the 2009 biennium.

2011 Biennium Major Goals

The Research Center is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goals are:

- Assist the public in the use of the collections
- Make the collection accessible and useful to the public

LFD ISSUE

Research Center objectives are not measurable or time-bound for the 2011 biennium

The objectives submitted by the Research Center do not include measurements or dates for achievement. For example, to measure the goal to make the collections accessible and useful to the public the Research Center will use the following objectives:

- Add records for all new acquisitions to the Montana Shared Catalog – FY 2008 baseline 3,966 new acquisitions added
- Add finding aids for processed archival collections to the Northwest Digital Archives online database – FY 2008 baseline 53 finding aids added
- Organize and catalog archives and photograph archives collections to make them more accessible – FY 2008 organized and cataloged 41 archival collections and 8,301 images

As shown above, none of the objectives include a measurement which will be achieved in the 2011 biennium, nor the dates by which they will be achieved. Specific measurements or targets enhance the legislature's understanding of the need for increases or decreases to appropriations relative to the program goals. Such items include:

- Does the Research Center anticipate it will be able to increase the number of archival collections added to the Montana Shared Catalog another 2 percent in the 2011 biennium with the current staff and resources?
- What efficiencies will result when the Research Center achieves 100 percent of the collections on the Montana Shared Catalog?
- How many new acquisitions are supported by the proposed budget?
- How does the addition of the additional archivist and the associated increased general fund support proposed in the budget affect the program's goal to make the collections accessible and useful to the public?

The legislature may wish to discuss with the Research Center appropriate measurable and time-bound objectives.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table							
Research Center							
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011	
01000 Total General Fund	\$ 842,871	93.6%	\$ 883,502	89.8%	\$ 888,217	90.0%	
01100 General Fund	842,871	93.6%	883,502	89.8%	888,217	90.0%	
06000 Total Proprietary Funds	57,498	6.4%	99,983	10.2%	98,986	10.0%	
06072 Misc Enterprise-Historical Soc	22,680	2.5%	44,173	4.5%	44,173	4.5%	
06076 Mhs Library Enterprise Funds	34,818	3.9%	55,810	5.7%	54,813	5.6%	
Grand Total	\$ 900,369	100.0%	\$ 983,485	100.0%	\$ 987,203	100.0%	

The program is funded through a combination of general fund and proprietary funds. Proprietary funds are generated through the sale of photographs, photocopies, and fees charged for research time spent by staff on public requests. Funding provided by the library enterprise funds proposed by the executive is decreased from 6.39 percent in the FY 2008 base budget to 5.75 percent and 5.66 percent of the funding in the FY 2010 and FY 2011, respectively.

LFD ISSUE

The executive proposes overappropriating the proprietary fund by \$18,900

The Research Center has two proprietary funds. The executive is proposing appropriations to fund the Research Center from both funds. Figure 3 shows the fund balances for the two funds from FY 2004 through FY 2008 and the projected fund balances for FY 2009 through FY 2011 based on appropriations and revenues recorded in FY 2008. The appropriations in the MHS library enterprise fund have been higher than the revenues received, decreasing the amount of fund balance. In FY 2010 and FY 2011 the executive proposes matching revenues to expenditures in this fund, thereby ensuring significant fund balance does not accumulate in this fund.

As can be seen, appropriations in the MHS photo archives enterprise fund have historically been less than the revenue generated by the fund, allowing for a significant fund balance to develop. The executive proposes aligning the revenues with the expenditures in this fund by increasing the proprietary appropriations funded through the MHS photo archives enterprise funds over the biennium. In addition, the executive proposes appropriating an additional \$77,000 over the biennium from the fund balance in the MHS photo archives enterprise

funds. This will eliminate the fund balance in this fund and over appropriate the fund by approximately \$18,900 in FY 2011. The legislature may wish to consider the amount of proprietary funds appropriated to the Research Center. The fund balance in the MHS photo archives will not be available to maintain program support in future biennia.

Options:

- Lower costs in the Research Center program by \$18,900 over the biennium to ensure the MHS photo archives fund is not overappropriated
- Increase general fund support by \$18,900 and reduce other appropriations by the same amount to provide adequate support for the proposed costs

Figure 3 Montana Historical Society Research Center Proprietary Funds								
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<u>MHS Photo Archives Enterprise</u>								
Beginning Fund Balance	\$24,210	\$10,566	\$16,043	\$16,131	\$43,905	\$58,182	\$58,182	\$19,075
Revenues	30,563	41,204	35,360	39,408	36,738	36,726	36,738	36,738
Expenditures	44,207	35,727	35,272	11,634	22,461	36,726	75,845	74,754
Ending Fund Balance	<u>\$10,566</u>	<u>\$16,043</u>	<u>\$16,131</u>	<u>\$43,905</u>	<u>\$58,182</u>	<u>\$58,182</u>	<u>\$19,075</u>	<u>(\$18,941)</u>
<u>MHS Library Enterprise Funds</u>								
Beginning Fund Balance	\$16,504	\$11,746	\$7,030	\$5,722	\$9,011	\$722	\$722	\$3,192
Revenues	25,236	28,140	30,614	30,297	26,608	26,608	26,608	26,608
Expenditures	30,870	32,856	31,923	27,008	34,896	26,608	24,138	24,232
Nonbudgeted Activities	876	0	0	0	0	0	0	0
Ending Fund Balance	<u>\$11,746</u>	<u>\$7,030</u>	<u>\$5,722</u>	<u>\$9,011</u>	<u>\$722</u>	<u>\$722</u>	<u>\$3,192</u>	<u>\$5,568</u>

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	842,871	842,871	1,685,742	95.15%	900,369	900,369	1,800,738	91.38%
Statewide PL Adjustments	43,954	48,669	92,623	5.23%	88,454	92,172	180,626	9.17%
Other PL Adjustments	(3,323)	(3,323)	(6,646)	(0.38%)	(5,338)	(5,338)	(10,676)	(0.54%)
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$883,502	\$888,217	\$1,771,719		\$983,485	\$987,203	\$1,970,688	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments											
-----Fiscal 2010-----						-----Fiscal 2011-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services					120,888					123,891	
Vacancy Savings					(34,159)					(34,281)	
Inflation/Deflation					386					428	
Inflation/Deflation					1,339					2,134	
Total Statewide Present Law Adjustments					\$88,454 *						\$92,172 *
DP 6 - Pgm 02 Correct Duplicate Budget Entry											
	0.00	(3,323)	0	0	(5,338)*	0.00	(3,323)	0	0	(5,338)*	
Total Other Present Law Adjustments											
	0.00	(\$3,323)	\$0	\$0	(\$5,338)*	0.00	(\$3,323)	\$0	\$0	(\$5,338)*	
Grand Total All Present Law Adjustments					\$83,116 *						\$86,834 *

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Market Rate** – As of October 2008, the Research Center estimates employees will be at 100 percent of the 2008 market survey which is below the agency target of 106 percent.
- o **Vacancy** – The Research Center did not have vacancies in the 2009 biennium and does not have positions which have long-term or frequent vacancies.
- o **Legislatively applied vacancy savings** - During the 2009 biennium, the Research Center left the few positions where vacancies occurred open until the legislatively applied vacancy savings was reached.
- o **Pay Changes** – Market adjustments outside of the increases included in HB 13 were granted to the majority of the staff. The Research Program funded these increases by holding vacant positions open or by utilizing private, non-budgeted funds.

**LFD
ISSUE**

Private, non-budgeted funds provided pay raises in FY 2008 which require general fund support in 2011 biennium

The Research Center Program used private funds from its non-budgeted state special revenue account to fund ongoing personal service costs, including pay raises above the pay plan amount. It is unclear if the funds would be available for ongoing support of the pay increases. The Governor has replaced a portion of the increases with general fund, and they are included in the ongoing budget. Personal service costs for this program increased 14.5 percent compared to the budgeted personal services costs for the program in the 2009 biennium.

The legislature may wish to discuss with the Research Program the percentage of the almost \$130,000 increase in personal services supported by private, non-budgeted funds in the 2009 biennium and the rationale for using funds which do not provide continuing support for pay increases.

Option:

- o Reduce MSH funding for personal service costs by the amount of the pay raises previously supported by private funds
- o **Retirements** - The Research Program estimates that one staff may retire in the next biennium. As the program does not have difficulty with retention and recruitment, retirements do not appear to be an issue for this program.

**LFD
ISSUE**

Executive proposes funding switch in statewide present law adjustments

The personal services expenditures associated with the cashier position was funded by the 2007 Legislature using a combination of general fund, state and federal special revenues, and proprietary funds. The personal services in this program are supported by a higher percentage of general fund, no state or federal revenues, and significantly less proprietary funding than was provided in the Administration Program. Thus, moving the FTE into this program has increased the amount of general fund needed to fund personal services in the Research Center. In addition, the reclassification from the cashier to the archivist and increasing the position from 0.75 FTE to 1.00 FTE increases the personal service costs associated with the position by about 39 percent, further increasing personal service costs supported by the general fund.

The changes discussed above are included as part of the statewide present law adjustments for the agency. As this appears to be a funding switch related to personal services, the legislature may wish to request a separate decision package on the changes associated with moving, increasing, and reclassifying the FTE. Separating the decision on funding the move of the FTE to this program allows the legislature to determine its support for the associated increased costs to the general fund.

Options:

- o Reduce personal service costs and the related general fund by the costs of the transferred FTE
- o Approve the funding switch as proposed by the executive

DP 6 - Pgm 02 Correct Duplicate Budget Entry - The Historical Society moved personal services authority into the operating expense category in the FY 2008 base year. The personal services authority was restored in the base personal services calculations and also in the operating base authority. This request removes \$5,338 general fund from the operating expense category for each year of the 2011 biennium so the authority does not appear in both categories.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				Fiscal 2011				Total Funds
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	
DP 25 - Pgm 02 Align Funding										
02	0.00	0	0	0	0	0.00	0	0	0	0
Total	0.00	\$0	\$0	\$0	\$0 *	0.00	\$0	\$0	\$0	\$0 *

DP 25 - Pgm 02 Align Funding - The Historical Society requests changes between proprietary funds of \$20,035 in FY 2010 and \$19,941 in FY 2011 to align projected revenues with projected expenditures for the 2011 biennium.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	9.00	9.00	9.00	9.00	9.00	9.00	0.00	0.00%
Personal Services	312,439	260,384	406,476	404,020	572,823	810,496	237,673	41.49%
Operating Expenses	19,494	(1,046)	10,000	10,000	18,448	20,000	1,552	8.41%
Equipment & Intangible Assets	10,748	0	0	0	10,748	0	(10,748)	(100.00%)
Benefits & Claims	0	0	0	0	0	0	0	n/a
Total Costs	\$342,681	\$259,338	\$416,476	\$414,020	\$602,019	\$830,496	\$228,477	37.95%
General Fund	279,893	209,490	319,525	323,770	489,383	643,295	153,912	31.45%
State Special	0	41,548	25,000	25,000	41,548	50,000	8,452	20.34%
Federal Special	0	0	0	0	0	0	0	n/a
Other	62,788	8,300	71,951	65,250	71,088	137,201	66,113	93.00%
Total Funds	\$342,681	\$259,338	\$416,476	\$414,020	\$602,019	\$830,496	\$228,477	37.95%

Program Description

The Museum Program collects, preserves, and interprets the history of Montana through its material culture, collecting fine arts and historical, archaeological, and ethnological artifacts from Montana and the general geographic region. The program interprets its collections through exhibits, tours, and traveling exhibits. The program also coordinates with the society's Education Program to orchestrate events, programs, and materials on Montana history for learners of all ages.

Program Highlights

Museum Program Major Budget Highlights	
♦	The Museum Program 2011 biennium budget increases 37.95 percent when compared to the 2009 biennium due in part to changes in funding personal services
♦	The executive proposes reducing present law costs needed to support the Museum Program operations
Major LFD Issues	
♦	Museum Program's operations are underfunded by \$84,535
♦	Private non-budgeted funds provided pay raises in FY 2008 which require general fund support in 2011 biennium
♦	Museum Program objectives do not include measures and are not time-bound for the 2011 biennium

Program Narrative

The Museum Program FY 2011 biennium budget increases 37.95 percent over the FY 2009 biennium in spite of FTE reductions. In the 2009 biennium a portion of personal services was supported using lodging use facility taxes which is now proposed to be supported by other appropriated funding in the program's budget. This is reflected as part of the large increase in personal service costs in the 2011 biennium.

**LFD
COMMENT**

As discussed in the agency section, MHS received lodging use facility taxes from the Department of Commerce to support historical interpretation and museum operations in FY 2009. The Museum Program used the provided funds to support its operating costs. The operating costs and related funding transferred to MHS are not included in the FY 2008 base budget, and as such are not in the proposed budget for FY 2010 and FY 2011. Should the legislature decline to either change the statutory appropriations of the Lodging Facility Use Taxes or request that the LFD include narrative in the fiscal report outlining the legislature's intent to have the Department of Commerce transfer lodging use facility taxes to MHS, the program operations will be underfunded by \$381,061 in FY 2010 and \$393,758 in FY 2011.

As part of the overall reorganization of the MHS, the Museum Program transferred 3.85 FTE to the Education Program. Transfers include:

- 1.00 FTE Instructional Coordinator
- 0.50 FTE Administrative Assistant
- 0.50 FTE Administrative Assistant
- 0.85 FTE Tour Guide
- 0.50 FTE Tour Guide
- 0.50 FTE Not Yet Classified

In addition, the program transferred \$310,392 in general fund appropriation authority to support personal service expenditures associated with the transfers.

**LFD
COMMENT**

The legislature approved 1.30 FTE and \$106,000 in general fund to provide for museum progress on the goal of having the museum collection cataloged into the museum software program and to assist implementation on compliance with policies governing the management of its collections to ensure all artifacts are properly controlled. The legislature approved the funding so that the Museum Program could inventory the collection ensuring it knows what it has, where it is located, and if anything is missing.

The last full inventory of the collection was completed in 1985. The last three legislative audit reports, including the report issued in November 2008, have expressed concern with controls over the collection. According to the audit report, the museum has over 50,000 historical artifacts in its collection, currently valued at \$58.4 million, and receives between 250 and 1,500 new artifacts each year. The lack of a complete inventory process increases the possibility the items could be lost or stolen without detection by the program.

2.15 FTE of the 11.15 FTE approved by the 2007 Legislature were transferred into other programs during MSH reorganization. It is unclear if the reorganization resulted in fewer positions available to inventory the collections and contributed to the continued audit finding in relation to the museum's collection.

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 interim.

The LFC monitored the overall agency goal to preserve and make publically accessible the heritage resources of the State of Montana. The measurable objective selected for the Museum Program was that the number of artifacts entered into the PastPerfect database would increase from 47 percent to 52 percent. The measurable objective directly related to the inventory of the museum collections.

Success

As of August 2008, the number of artifacts entered into the database was 29,417 or 53.97 percent of the MHS collection.

2011 Biennium Major Goals

The Museum Program is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goals are:

- Preservation of art and artifacts held in trust for the public by the museum through collections care, collections management, preservation efforts, and conservation project.
- Provide quality exhibits and educational programming for our statewide and national audiences at Montana's Museum, the Original Governor's Mansion, and the State Capitol

LFD ISSUE Museum Program objectives do not include measures and are not time-bound for the 2011 biennium

The objectives submitted by the Museum Program do not include measurements or dates for achievement. For example, the goal to preserve the art and artifacts held in trust for the public through collections care, collections management, preservation efforts, and conservation projects has to have measurable objectives:

- Continual – part of daily curatorial work
- Track specific projects annually

As shown above, no measurements or dates are included. The continual daily curatorial work would include ensuring the museum's collections are entered onto the inventory database. In the 2009 biennium, the program exceeded its anticipated percentage of the collection entered onto the database, using less resources than previously identified for the project, and 10 months ahead of schedule. One measurement the program could provide for this biennium is the anticipated percentage of the collection which will be entered onto the database. Another measurement might be the percentage of the collection the curators anticipate inventorying. The legislature may also be interested in knowing the anticipated number of new exhibits, new acquisitions for the collection, or the objectives relating to the conservation projects.

The legislature is being asked to appropriate \$0.9 million to support this program in the 2011 biennium.

Option: The legislature may wish to discuss with Research Center Program how it can provide measurable and time-bound objectives to its goal in the 2011 biennium.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Museum Program						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 279,893	81.7%	\$ 319,525	76.7%	\$ 323,770	78.2%
01100 General Fund	279,893	81.7%	319,525	76.7%	323,770	78.2%
02000 Total State Special Funds	-	-	25,000	6.0%	25,000	6.0%
02045 Orig Gov'S Mansion Restoration	-	-	25,000	6.0%	25,000	6.0%
06000 Total Proprietary Funds	62,788	18.3%	71,951	17.3%	65,250	15.8%
06077 Mhs Museum Enterprise Funds	62,788	18.3%	71,951	17.3%	65,250	15.8%
Grand Total	\$ 342,681	100.0%	\$ 416,476	100.0%	\$ 414,020	100.0%

The Museum Program is funded through a combination of general fund, state special revenue from undesignated donations at the Original Governor's Mansion, and proprietary funds generated through the sales of books, copies, photographs, and the rental of traveling exhibits.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	279,893	279,893	559,786	87.02%	342,681	342,681	685,362	82.52%
Statewide PL Adjustments	57,354	58,399	115,753	17.99%	109,399	110,678	220,077	26.50%
Other PL Adjustments	(20,204)	(20,204)	(40,408)	(6.28%)	4,796	4,796	9,592	1.15%
New Proposals	2,482	5,682	8,164	1.27%	(40,400)	(44,135)	(84,535)	(10.18%)
Total Budget	\$319,525	\$323,770	\$643,295		\$416,476	\$414,020	\$830,496	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					126,677					127,978
Vacancy Savings					(17,565)					(17,617)
Inflation/Deflation					67					97
Fixed Costs					220					220
Total Statewide Present Law Adjustments					\$109,399 *					\$110,678 *
DP 3 - Original Gov Mansion Restoration	0.00	0	25,000	0	25,000	0.00	0	25,000	0	25,000
DP 7 - Pgm 03 Correct Duplicate Budget Entry	0.00	(20,204)	0	0	(20,204)	0.00	(20,204)	0	0	(20,204)
Total Other Present Law Adjustments	0.00	(\$20,204)	\$25,000	\$0	\$4,796	0.00	(\$20,204)	\$25,000	\$0	\$4,796
Grand Total All Present Law Adjustments					\$114,195					\$115,474

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate** - As of October 2008, the Museum Program estimates employees will be at 82 percent of the 2008 market survey after implementing HB 13 pay adjustments. This is below the agency target of 106 percent.
- **Vacancy** - The Museum Program experienced 25 percent vacancies through out the 2008 biennium. The positions were left open to achieve the legislatively applied vacancy savings rate and to provide for pay changes.
- **Legislatively applied vacancy savings** - Positions were left vacant until the legislatively applied vacancy savings rate was achieved.
- **Pay Changes** - The Museum Program funded pay changes given outside of HB 13 by holding vacant positions open and utilizing private, non-budgeted funds.

**LFD
ISSUE**

Private, non-budgeted funds provided pay raises in FY 2008 which require general fund support in the 2011 biennium

The Museum Program used private funds from its non-budgeted state special revenue account to fund ongoing personal service costs including pay raises above the pay plan amount. It is unclear if the funds would be available for ongoing support of the pay increases. The Governor has replaced a portion of the increases with general fund, and they are included in the ongoing budget. Personal service costs for this program increased 25.8 percent compared to the budgeted personal services costs for the program in the 2009 biennium. The legislature may wish to discuss with the Museum Program the percentage of the almost \$254,500 increase in personal services previously supported by private, non-budgeted funds in the 2009 biennium and the rationale for using funds which do not provide continuing support for pay increases.

Option: Reduce MSH funding for personal service costs by the amount of the pay raises previously supported by private funds.

- **Retirements** – The program does not anticipate any retirements in the 2011 biennium.

DP 3 - Original Gov Mansion Restoration - This request is for \$25,000 state special revenue in the 2011 biennium for restoration work at the Original Governor's Mansion (OGM). This request will include expending resources in the fund and donations from the OGM Board for refurbishing the OGM carriage house.

DP 7 - Pgm 03 Correct Duplicate Budget Entry - The Historical Society moved personal services authority into the operating expense category in the FY 2008 base year. The personal services authority was restored in the base personal services calculations and also in the operating base authority. This removes \$20,204 in general fund from the operating expense category for each year of the 2011 biennium so the authority does not appear in both categories.

New Proposals

New Proposals		Fiscal 2010				Fiscal 2011			
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Total Funds
DP 21 - Pgm 03 Align Funding									
03	0.00	2,482	0	0	(40,400)*	0.00	5,682	0	(44,135)*
Total	0.00	\$2,482	\$0	\$0	(\$40,400)*	0.00	\$5,682	\$0	(\$44,135)*

DP 21 - Pgm 03 Align Funding - The Historical Society requests changes in funding of \$40,400 in FY 2010 and \$44,135 in FY 2011 from proprietary funds to general fund and state special funds in order to align projected revenues with projected expenditures for the 2011 biennium.

**LFD
ISSUE**

Because the executive over appropriated anticipated proprietary funds, through this decision package, the Governor proposes to reduce the present law costs needed to support the operations of this program. Overall reductions include:

- Personal service costs, \$15,075 in FY 2010 and \$18,780 in FY 2011
- Operating expenses, \$14,577 in FY 2010 and \$14,607 in FY 2011
- Equipment, \$10,748 in FY 2010 and \$10,748 in FY 2011

Without these reductions the program is underfunded by a total of \$84,535 over the biennium.

Options include:

- Approve the executive's decision to reduce program support by \$84,535
- Provide an additional appropriation of \$84, 535 in general fund to fully support the present law budget

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	4.00	4.00	4.00	4.00	4.00	4.00	0.00	0.00%
Personal Services	188,373	328,011	219,639	220,055	516,384	439,694	(76,690)	(14.85%)
Operating Expenses	201,420	175,684	174,819	175,722	377,104	350,541	(26,563)	(7.04%)
Benefits & Claims	0	0	0	0	0	0	0	n/a
Transfers	50,503	50,503	50,503	50,503	101,006	101,006	0	0.00%
Total Costs	\$440,296	\$554,198	\$444,961	\$446,280	\$994,494	\$891,241	(\$103,253)	(10.38%)
General Fund	92,401	93,932	98,830	99,107	186,333	197,937	11,604	6.23%
State Special	0	0	0	0	0	0	0	n/a
Federal Special	0	0	0	0	0	0	0	n/a
Other	347,895	460,266	346,131	347,173	808,161	693,304	(114,857)	(14.21%)
Total Funds	\$440,296	\$554,198	\$444,961	\$446,280	\$994,494	\$891,241	(\$103,253)	(10.38%)

Program Description

The Publications Program promotes the study of Montana history and education through lectures, publications, and curriculum materials. The program publishes quarterly editions of the award-winning *Montana The Magazine of Western History* and the *Montana Star*, official newsletter of the society. It also publishes books under the Montana Historical Society Press imprint.

Program Highlights

Publications Program Major Budget Highlights	
♦	The Publications Program FY 2011 biennium budget decreases about \$103,000 due to FTE reductions
♦	Reductions are offset by statewide present law adjustments
Major LFD Issues	
♦	Proprietary funds can be used to offset \$197,937 general fund over the biennium
♦	Objectives do not include specific measurements to determine progress over the biennium

Program Narrative

Publications Program costs decrease by 10.4 percent in the 2011 biennium when compared to the 2009 biennium. The Publications Program reduced 1.75 FTE in the agency reorganization. The FTE were transferred to the Education and Museum Programs, and the Research Center. Subsequent to the reductions, the program requested 1.25 modified FTE for editing and design work. The modified FTE are supported by proprietary funds.

**LFD
ISSUE**

Proprietary funds can be used to offset \$197,937 general fund over the biennium

The 2007 Legislature approved increased general fund support of \$84,866 for the Western History Magazine to offset personal services costs for an editor and business manager and to assist in paying the increased costs in salaries for these positions. The program reduced FTE in this program by 1.75 but did not transfer the associated \$154,378 of personal services budget authority the legislature provided to support FTE. This FTE was supported by proprietary funds. Since the program did not transfer the funding, the proprietary funding could have been used to reduce general fund personal service costs of \$92,401 in FY 2008. The executive proposes maintaining the base percentages of proprietary funds and general fund to support the personal services in this program. The proprietary fund can support the entire amount of the personal services in this program.

Option: The legislature may wish to reduce general fund by \$197,937 over the biennium and increase proprietary funds by the same amount.

**LFD
ISSUE**

Program Costs Could Be Budgeted More Accurately

If the legislature determines it will keep supporting the program with general fund, it may wish to consider the executive's proposal for personal services costs and transfers supported by general fund. Of the \$98,830 and \$99,107 general fund budgeted in FY 2010 and FY 2011 respectively, \$50,503 is budgeted to support an expenditure category, "transfer of an appropriated fund". This expenditure category does not provide information to the agency or the legislature on the use of the funds.

According to MHS accounting staff, when the general fund was first provided to the program it was recorded in this manner and the agency has continued it rather than record the costs as personal services. The \$50,503 would be more accurately recorded as personal services costs. The personal services of the magazine are budgeted at \$219,639 and \$220,055 in FY 2010 and FY 2011, respectively. The actual costs are approximately \$50,503 higher each year.

Option: To more accurately reflect program costs, the legislature may wish to consider eliminating "budgeted transfers" and increase personal service costs.

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 interim.

The LFC monitored the overall agency goal to preserve and make publicly accessible the heritage resources of the State of Montana. The Publications Program was not included as part of this project

2011 Major Biennium Goals

The Publications Program is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The identified significant goal is to continue publication and distribution of Montana The Magazine of Western History, the state's award winning quarterly history journal and the only one of its kind, for readers throughout Montana, in all 50 states, and 17 foreign countries.

**LFD
ISSUE**

Publications Program objectives do not include specific measures for the 2011 biennium

The objectives submitted by the Publications Program do not include specific measurements to achieve. For example, the goal to continue to publication and distribution of Montana, The Magazine of Western History lists the following as an objective:

- This objective can be measured by the quarterly – Spring, Summer, Autumn, and Winter – appearance of the magazine in mailboxes and on newsstands

As shown above, specific measurements are not included. The objective does not include the overall number of magazines it estimates it will publish each quarter. Nor does it include the baseline numbers from FY 2008. The measurements could be used to compare the baseline to the projected magazine publications issued in the 2011 biennium. This allows the legislature to determine if the publications program workload, as it relates to the magazine, will be increasing, decreasing, or staying stable. This information can assist the legislature in a determination of the reasonableness of the staffing reductions.

Option: The legislature is being asked to appropriate \$0.9 million to support this program over the 2011 biennium. The legislature may wish to discuss with the Publications Program how it can provide specific measurements for its objectives.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Publications Program						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 92,401	21.0%	\$ 98,830	22.2%	\$ 99,107	22.2%
01100 General Fund	92,401	21.0%	98,830	22.2%	99,107	22.2%
06000 Total Proprietary Funds	347,895	79.0%	346,131	77.8%	347,173	77.8%
06002 Mhs Publications Enterprise	347,895	79.0%	346,131	77.8%	347,173	77.8%
Grand Total	\$ 440,296	100.0%	\$ 444,961	100.0%	\$ 446,280	100.0%

The program is funded with a combination of general fund and proprietary funds. The general fund pays a portion of 2.00 FTE, the program manager and an editor, involved in publishing Montana the Magazine of Western History. Proprietary funds are generated through subscription sales for the magazine and sales of books published by the program.

**LFD
COMMENT**

The proprietary funds in the Publications Program had a fund balance of \$159,961 at FYE 2008. A fund balance of \$356,160 was recorded in the account at FYE 1999. The fund balance in the account has declined over the period between FY 2000 and FY 2008 as costs have been higher than revenues. The fund balance is available for support of the program above the projected proprietary revenues. However, current operations appear to be unsustainable in future biennia.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	92,401	92,401	184,802	93.36%	440,296	440,296	880,592	98.81%
Statewide PL Adjustments	6,429	6,706	13,135	6.64%	30,634	31,953	62,587	7.02%
Other PL Adjustments	0	0	0	0.00%	(25,969)	(25,969)	(51,938)	(5.83%)
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$98,830	\$99,107	\$197,937		\$444,961	\$446,280	\$891,241	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					40,417					40,852
Vacancy Savings					(9,151)					(9,170)
Inflation/Deflation					250					271
Fixed Costs					(882)					0
Total Statewide Present Law Adjustments					\$30,634 *					\$31,953 *
DP 8 - Pgm 04 Correct Duplicate Budget Entry	0.00	0	0	0	(25,969)*	0.00	0	0	0	(25,969)*
Total Other Present Law Adjustments	0.00	\$0	\$0	\$0	(\$25,969)*	0.00	\$0	\$0	\$0	(\$25,969)*
Grand Total All Present Law Adjustments					\$4,665 *					\$5,984 *

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Market Rate** – The Publications Program projects that the market ratio for the program on October 1, 2008, after implementing the HB 13 pay adjustments, will be 91 percent of the 2008 market survey. This is lower than the overall agency target of 106 percent of the market.
- o **Vacancy** - The program experienced 16 percent vacancies in FY 2008.
- o **Legislatively applied vacancy savings** – The program used the vacancies for legislatively applied vacancy savings
- o **Pay Changes** - Pay changes given outside of HB 13 were funded using proprietary funds generated through program activities
- o **Retirements** – The program does not anticipate staff retirements in the 2011 biennium and does not have significant compensated absence liabilities associated with the retirements.

DP 8 - Pgm 04 Correct Duplicate Budget Entry - The Publications Program moved \$25,969 in personal services authority into operating authority in FY 2008 base year. The personal services authority was restored in the 2011 biennium personal services calculations and it is also included in the operating expenses authority. This removes the funding from the operating expenses for each year of the 2011 biennium.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	5.85	5.85	5.85	5.85	5.85	5.85	0.00	0.00%
Personal Services	161,307	306,829	246,718	241,033	468,136	487,751	19,615	4.19%
Operating Expenses	16,992	62,317	7,626	7,636	79,309	15,262	(64,047)	(80.76%)
Total Costs	\$178,299	\$369,146	\$254,344	\$248,669	\$547,445	\$503,013	(\$44,432)	(8.12%)
General Fund	174,590	233,790	221,276	215,601	408,380	436,877	28,497	6.98%
State Special	2,476	132,856	0	0	135,332	0	(135,332)	(100.00%)
Federal Special	0	0	0	0	0	0	0	n/a
Other	1,233	2,500	33,068	33,068	3,733	66,136	62,403	1,671.66%
Total Funds	\$178,299	\$369,146	\$254,344	\$248,669	\$547,445	\$503,013	(\$44,432)	(8.12%)

Program Description

The Education Program is comprised of three primary divisions: Outreach and Interpretation, Historic Signs, and the Volunteer Program. The Outreach and Interpretation Program provides educational public programming of all types, both at the society's headquarters and throughout the state, for a wide range of audiences; plans and produces educational publications, curriculum materials, and instructional literature for broad distribution; plans and produces interpretive, place-based publications, articles, brochures, and tours for statewide distribution/implementation; oversees the National Register Sign Program for the State of Montana, producing interpretive signage for eligible structures and sites in all parts of the state; assists in the planning, production, and placement of non-Register signage in all parts of the state; assists in the planning, production, and distribution of interpretive permanent, temporary, and traveling exhibitions; provides reference services to the general public, teachers, students, technical users, and other like-minded institutions and organizations; and oversees the society's volunteer program, coordinating volunteers, and volunteer activities society-wide.

Program Highlights

Education Program Major Budget Highlights	
♦	The executive proposes funding the new Education Program using a combination of funds
Major LFD Issues	
♦	Objectives for the Education Program were not submitted as part of the budget as required by statute
♦	The executive proposes to reduce personal service costs included in the present law budget

Program Narrative

As part of the reorganization of the MHS, the Education Program was created in FY 2008. The agency transferred the following into the Education Program:

Figure 4
Montana Historical Society
FTE Transfers into Education Program

Program	FTE	Funding	Sources
Administration Program	1.25	\$118,064	General Fund/State Special Revenue
Museum Program	3.35	292,225	General Fund
Publications Program	0.75	0	No funding transferred to support the FE
Historical Preservation Office	1.00	89,575	General Fund
Total	6.35	\$499,864	

In addition, the statutory appropriation for sites and signs and related FTE were moved from the Administrative Program to the Education and Museum Programs.

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 interim.

The LFC monitored the overall agency goal to preserve and make publically accessible the heritage resources of the State of Montana. The measurable objective selected for the Education Program was the number of patrons reached through educational programming will increase by 3 percent, from 41,000 to 42,230.

Successes

As of August 2008, the number of patrons reached through educational programming increased by 40 percent, from 41,000 to 57,421. The increase was attributed to the Education Program increasing their outreach in regards to the footlocker project.

2011 Biennium Major Goals

The Education Program is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The Education Program submitted one goal - provide quality educational programming for statewide and national audiences.

LFD ISSUE

Specific, measurable, time-bound objectives related to the Education Program were not submitted

The Museum and Education Programs submitted joint goals and objectives. The measurable objectives listed do not address the Education Program. The legislature may wish to discuss with the Education Program specific, measurable, time-bound objectives.

Funding

The following table shows program funding, by source, for the base year and the 2011 biennium as recommended by the Governor.

Program Funding Table						
Education Program						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 174,590	97.9%	\$ 221,276	87.0%	\$ 215,601	86.7%
01100 General Fund	174,590	97.9%	221,276	87.0%	215,601	86.7%
02000 Total State Special Funds	2,476	1.4%	-	-	-	-
02041 Mt Hist. Society Donations	2,476	1.4%	-	-	-	-
06000 Total Proprietary Funds	1,233	0.7%	33,068	13.0%	33,068	13.3%
06022 Mhs Education Enterprise Funds	1,233	0.7%	33,068	13.0%	33,068	13.3%
Grand Total	\$ 178,299	100.0%	\$ 254,344	100.0%	\$ 248,669	100.0%

The executive proposes funding the Education Program through a combination of general fund, state special revenue funds from donations, federal grants, and proprietary funds generated from education enterprises.

LFD ISSUE

State Special Revenues Over Appropriated

The state special revenue funds appropriated in this program are also appropriated in the Administrative Program. LFD has determined the appropriations in the Administration Program are approximately \$24,000 higher than received in FY 2008. Funding in this program declined 24 percent between FY 2007 and FY 2008. Given the current economic climate, appropriating an additional \$16,974 from these revenues is not supported.

If the program is to operate as proposed, additional funding appears to be required. The legislature may wish to consider if it wishes to provide full funding support for the program operations as proposed by the executive.

Options: The legislature could:

- o Lower program costs by \$16,374 over the biennium
- o Increase general fund support for the program by \$16,374 over the biennium

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	174,590	174,590	349,180	79.93%	178,299	178,299	356,598	70.89%
Statewide PL Adjustments	8,926	10,393	19,319	4.42%	125,747	128,178	253,925	50.48%
Other PL Adjustments	(9,436)	(9,436)	(18,872)	(4.32%)	(9,436)	(9,436)	(18,872)	(3.75%)
New Proposals	47,196	40,054	87,250	19.97%	(40,266)	(48,372)	(88,638)	(17.62%)
Total Budget	\$221,276	\$215,601	\$436,877		\$254,344	\$248,669	\$503,013	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----						-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					137,635					140,157
Vacancy Savings					(11,958)					(12,059)
Inflation/Deflation					70					80
Total Statewide Present Law Adjustments					\$125,747 *	\$128,178 *				
DP 9 - Pgm 05 Correct Duplicate Budget Entry	0.00	(9,436)	0	0	(9,436)	0.00	(9,436)	0	0	(9,436)
Total Other Present Law Adjustments										
	0.00	(\$9,436)	\$0	\$0	(\$9,436)	0.00	(\$9,436)	\$0	\$0	(\$9,436)
Grand Total All Present Law Adjustments					\$116,311	\$118,742				

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Market Rate** – As of October 2008, the Education Program estimates employees will be at 103 percent of the 2008 market survey, after implementing HB 13 pay adjustments. This is lower than the agency target of 106 percent.
- o **Vacancy** – The Education Program experienced 22.55 percent vacancies when calculated base hours are compared to actual base hours. The positions were left open to achieve legislatively applied vacancy savings and to support pay changes.
- o **Legislatively applied vacancy savings** - Positions were left vacant ensuring the legislatively applied vacancy savings amounts were attained throughout the agency. As the program was created after the legislature approved the agency's budget a specific vacancy savings target was not determined.
- o **Pay Changes** –The Education Program funded pay changes given outside of HB 13 by holding open vacant positions and utilizing private, non-budgeted funds.

LFD ISSUE

Using private, non-budgeted funds to support pay increases results in increased general fund to support the increases in the 2011 biennium.

The private non-budgeted funds are not included in the executive's proposed budget for the 2011 biennium. As this program is supported by over 50 percent general fund, the costs of the pay increases over the 2011 biennium require additional general fund. In FY 2008 over \$45,000 in private, non-budgeted funds were used to support personal services. The legislature may wish to discuss with the Education Program the percentage of the \$277,792 increase in personal services previously supported by private, non-budgeted funds in the 2009 biennium and the rationale for using funds which do not provide continuing support for pay increases. The legislature may also wish to consider if it wishes to fully fund the pay increases using state support.

- o **Retirements** - The program does not anticipate any retirements in the 2011 biennium.

DP 9 - Pgm 05 Correct Duplicate Budget Entry - The Education Program moved \$9,436 in personal services costs into operating costs in FY 2008. The personal services authority was restored in the 2011 biennium personal services calculations and it is also included in the operating expense. This removes the funding from the operating expenses for each year of the biennium.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				FTE	Fiscal 2011			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 22 - Pgm 05 Align Funding										
05	0.00	47,196	(8,453)	(85,298)	(40,266)*	0.00	40,054	(8,521)	(85,980)	(48,372)*
Total	0.00	\$47,196	(\$8,453)	(\$85,298)	(\$40,266)*	0.00	\$40,054	(\$8,521)	(\$85,980)	(\$48,372)*

DP 22 - Pgm 05 Align Funding - The Governor proposes a funding shift for the Education Program. This decision package reduces present law personal service costs by \$40,266 in FY 2010 and \$48,372 in FY 2011. The decision package also increases general fund by \$87,250, proprietary funds by \$12,364 over the biennium and decreases state and federal special revenues by \$16,974 and \$171,278, respectively.

LFD ISSUE OBPP included federal special revenues as funding for this program in the adjusted FY 2010 and FY 2011 base. The LFD has been unable to identify a grant source for the funding included in the base adjustments. The executive now proposes to eliminate this funding source and offset the reduction through present law personal costs reductions and increased general and state special revenue funding.

Options include:

- o Approve the executive's proposal to reduce personal service costs in this program by \$40,266 in FY 2010 and \$48,372 in FY 2011
- o Provide an additional appropriation of \$88,638

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	8.75	8.75	8.75	8.75	8.75	8.75	0.00	0.00%
Personal Services	465,213	477,105	477,302	478,425	942,318	955,727	13,409	1.42%
Operating Expenses	69,515	75,912	84,360	84,751	145,427	169,111	23,684	16.29%
Grants	77,000	78,861	77,000	77,000	155,861	154,000	(1,861)	(1.19%)
Total Costs	\$611,728	\$631,878	\$638,662	\$640,176	\$1,243,606	\$1,278,838	\$35,232	2.83%
General Fund	144,247	116,020	71,017	86,325	260,267	157,342	(102,925)	(39.55%)
State Special	0	0	0	0	0	0	0	n/a
Federal Special	463,699	510,858	563,696	549,893	974,557	1,113,589	139,032	14.27%
Other	3,782	5,000	3,949	3,958	8,782	7,907	(875)	(9.96%)
Total Funds	\$611,728	\$631,878	\$638,662	\$640,176	\$1,243,606	\$1,278,838	\$35,232	2.83%

Program Description

The Historic Sites Preservation Program (State Historic Preservation Office) administers the Montana Antiquities Act (MCA 22-3-421; ARM 10.121.901) and Montana's participation in the National Historic Preservation Act of 1966, as amended, with its federal programs, guidelines, and grants-in-aid for historic preservation. Staff provide technical assistance to all Montana property owners, including agencies, organizations, and the public. Staff maintains a statewide inventory of recorded historic and archaeological sites. Staff review and comment on all proposed federally funded or permitted projects within the state to determine their effect on properties listed or eligible for listing in the National Register of Historic Places. Staff administers the National Register of Historic Places program in Montana through the state preservation review board. The office recommends certification of historic structures and rehabilitation projects for federal tax credits to citizens and businesses, as authorized by the Tax Reform Act of 1976. The program awards and administers pass-through federal grants to local governments participating in the federal Certified Local Government Program. The program may also award funds for historic survey and planning for historic areas and for bricks and mortar rehabilitation when funds are available.

Program Highlights

Historic Preservation Program Major Budget Highlights	
♦	The Historic Preservation Program's budget increases 3 percent when compared to the 2009 biennium budget <ul style="list-style-type: none"> • All increase are attributable to statewide present law adjustments
♦	Major goals for the 2011 biennium are included and objectives are measurable
Major LFD Issues	
♦	General fund can be reduced by \$9,400
♦	Measurable targets for the objectives appear low based on successes in the 2009 biennium

Program Narrative

The Historic Preservation Program budget increases almost 3 percent when compared to the 2009 biennium. The program transferred 1.00 FTE and \$89,575 in general fund to the Education Program in FY 2008. Without the transfers, the increases to the Historic Preservation Program would have been higher.

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 interim.

The LFC monitored the overall agency goal to preserve and make publically accessible the heritage resources of the State of Montana. The measurable objective selected for the Historic Preservation Program was a 4 percent increased (2,000 over the biennium) in the total number of inventoried historic and archaeological properties eligible for preservation by agencies and the public.

Status

As of August 2008, the number of newly recorded historic and archeological properties added to the database increased by 2.4 percent. In addition, 419 existing property records were updated with new information. The LFC Subcommittee on Education considered this measurement on track to succeed by June 2009.

2011 Biennium Major Goals

The Historic Preservation Program is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goals are:

- Maintain and add to statewide inventory of locations of survey and of known recorded historic and archaeological properties in Montana
- Assist and provide funding support, as available, for state and local preservation projects and initiatives, including survey and identification, brick-and-mortar restoration, planning, promotion, education, training, and interpretation

The Historic Preservation Program proposes measuring the second goal by securing and distributing at least \$200,000 in federal, state, and private funding support over the biennium to state and local agencies, organizations and individuals for successful historic preservation projects and programs.

LFD COMMENT The legislature may wish to request specifics on how the program anticipates determining the success of the historic preservation projects and programs. The legislature may also wish to request specifics on the sources of the grants as the program is currently budgeting \$154,000 in federal funds to support this activity.

The Historic Preservation Program proposes adding 500 new cultural resource inventory reports to the electronic state Database each year.

LFD ISSUE Proposed measurements appear low based on previous successes

The program is on track to enter 2,000 inventory reports onto the state database in the 2009 biennium or twice the number of the proposal in the 2011 biennium. The legislature may wish to request the Historic Preservation Program propose a higher measurement for the next biennium as the program funding and resources have not been decreased over those in FY 2008 when the program achieved 2.4 percent or over 1,000 records in a single year.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table Historic Preservation Program							
Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	Total General Fund	\$ 144,247	23.6%	\$ 71,017	11.1%	\$ 86,325	13.5%
	01100 General Fund	144,247	23.6%	71,017	11.1%	86,325	13.5%
03000	Total Federal Special Funds	463,699	75.8%	563,696	88.3%	549,893	85.9%
	03021 Historic Sites Preservation	463,699	75.8%	563,696	88.3%	549,893	85.9%
06000	Total Proprietary Funds	3,782	0.6%	3,949	0.6%	3,958	0.6%
	06073 Historical Society Management	3,782	0.6%	3,949	0.6%	3,958	0.6%
Grand	Total	\$ 611,728	100.0%	\$ 638,662	100.0%	\$ 640,176	100.0%

The program is funded through a combination of general fund, federal special revenue from the National Park Service (NPS), and proprietary funds. The executive proposes increasing general fund by almost 16 percent when compared to the 2009 biennium.

**LFD
ISSUE**

Federal funds are overappropriated by \$4,420 in FY 2010 and underappropriated by \$9,383 in FY 2011.

The NPS federal grant award was increased in FY 2008 to \$663,000. The program manager anticipates that the federal Historic Sites Preservation grant funding will remain static at the 2008 level or \$663,000 each year of the biennium. A portion of the grant funds pay federal indirect costs and are budgeted in the Administration Program.

The executive proposes \$4,420 more in federal appropriations than the FY 2008 grant award in FY 2010 and \$9,383 less in FY 2011. In FY 2011 the underappropriation of federal funds can result in general fund savings of the same amount

Option: The legislature can:

- Decrease federal special revenues by \$4,420 in FY 2010 and either reduce program costs or increase general fund by the same amount
- Increase federal special revenues by \$9,383 in FY 2011 and decrease general fund by the same amount

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	144,247	144,247	288,494	183.35%	611,728	611,728	1,223,456	95.67%
Statewide PL Adjustments	6,351	6,708	13,059	8.30%	26,934	28,448	55,382	4.33%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(79,581)	(64,630)	(144,211)	(91.65%)	0	0	0	0.00%
Total Budget	\$71,017	\$86,325	\$157,342		\$638,662	\$640,176	\$1,278,838	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					31,977					33,147
Vacancy Savings					(19,888)					(19,935)
Inflation/Deflation					206					222
Fixed Costs					14,639					15,014
Total Statewide Present Law Adjustments					\$26,934 *					\$28,448 *
Grand Total All Present Law Adjustments					\$26,934					\$28,448

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Market Rate** – As of October 2008, the Historic Preservation Program estimates employees will be at 88 percent of the 2008 market survey after implementing HB 13 pay plan increases. This is below the agency market target of 106 percent.
- o **Vacancy** – The program experienced a very small percentage of vacancies
- o **Legislatively applied vacancy savings** – The agency, as a whole, left positions vacant to ensure they were able to attain the legislatively applied vacancy savings.
- o **Pay Changes** – The program states questions related to pay changes outside of those approved by the legislature in HB 13 were not applicable to the program.

LFD COMMENT

A review of pay changes made in the program shows that approximately 31.5 percent of the pay changes made in FY 2009 were for strategic pay retention of current employees which are outside of HB 13. The program received a transfer of personal services appropriation authority from the Administration Program during the fiscal year in part to offset the additional costs of the pay changes

- o **Retirements** – The program anticipates one retirement in this program. To meet legislatively applied vacancy savings the position may need to remain open for a longer period of time than required to fill the position which could impact administrative operations.

New Proposals

New Proposals										
Program	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 23 - Pgm 06 Align Funding										
06	0.00	(79,581)	0	79,581	0	0.00	(64,630)	0	64,630	0
Total	0.00	(\$79,581)	\$0	\$79,581	\$0 *	0.00	(\$64,630)	\$0	\$64,630	\$0 *

DP 23 - Pgm 06 Align Funding - - The Historical Society requests changes in funding in FY 2010 of \$79,581 and FY 2011 of \$64,630 from general fund to federal funds in order to align projected revenues with projected expenditures for the 2011 biennium.

LFD COMMENT

The executive's proposal to align funding in this program results in the under and over appropriation discussed in the funding narrative. If the legislature determines it will adjust the appropriations, the funding changes in this decision package would be changed.

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	104.05	104.05	106.05	106.05	104.05	106.05	2.00	1.92%
Personal Services	5,763,795	6,889,978	6,637,637	6,647,901	12,653,773	13,285,538	631,765	4.99%
Operating Expenses	5,631,549	9,361,880	11,074,764	11,964,500	14,993,429	23,039,264	8,045,835	53.66%
Equipment & Intangible Assets	43,732	18,899	43,732	43,732	62,631	87,464	24,833	39.65%
Local Assistance	8,826,093	9,540,368	9,559,549	9,654,577	18,366,461	19,214,126	847,665	4.62%
Grants	14,526,744	20,019,130	20,877,033	20,281,454	34,545,874	41,158,487	6,612,613	19.14%
Benefits & Claims	25,034,673	59,399,808	32,073,189	35,908,489	84,434,481	67,981,678	(16,452,803)	(19.49%)
Transfers	169,519,888	181,652,716	186,735,525	188,489,500	351,172,604	375,225,025	24,052,421	6.85%
Total Costs	\$229,346,474	\$286,882,779	\$267,001,429	\$272,990,153	\$516,229,253	\$539,991,582	\$23,762,329	4.60%
General Fund	170,167,847	186,280,601	189,782,321	191,624,886	356,448,448	381,407,207	24,958,759	7.00%
State Special	18,154,607	17,031,878	19,084,815	19,582,864	35,186,485	38,667,679	3,481,194	9.89%
Federal Special	40,929,549	83,459,942	58,043,479	61,693,240	124,389,491	119,736,719	(4,652,772)	(3.74%)
Other	94,471	110,358	90,814	89,163	204,829	179,977	(24,852)	(12.13%)
Total Funds	\$229,346,474	\$286,882,779	\$267,001,429	\$272,990,153	\$516,229,253	\$539,991,582	\$23,762,329	4.60%

Agency Description

The Office of the Commissioner of Higher Education (OCHE) is the state-level administrative organization of the Montana University System (MUS). The Montana Constitution, Article X, Section 9, grants governance authority over the MUS to the Board of Regents (Regents), with seven members appointed by the Governor. The Constitution charges the Regents with hiring a Commissioner of Higher Education (CHE) who serves as its executive staff.

All state funds appropriated by the legislature to the Regents for the support of the MUS are channeled through OCHE.

The Montana University System is comprised of:

- o The Board of Regents
- o The Commissioner of Higher Education, his/her staff, and several system-wide programs administered from the Office of the Commissioner of Higher Education
- o The University of Montana, with:
 - Four-year campuses in Missoula, Butte, and Dillon
 - Two-year college of technology campuses in Missoula, Butte, and Helena
 - Two research/public service agencies in Missoula and Butte
- o Montana State University, with:
 - Four-year campuses in Bozeman, Billings, and Havre
 - Two-year college of technology campuses in Billings and Great Falls
 - Three research/public service agencies in Bozeman and Great Falls
- o Two-year community colleges in Kalispell, Glendive, and Miles City. Governance of the community colleges is divided between the Regents and the local board of trustees of each community college district

Since the 1995 legislative session, the legislature has combined the appropriation for the university educational units (all campuses of Montana State and the University of Montana) and most of OCHE into a single, lump-sum appropriation. Thus, the legislature determines the size of this budget, but the Regents make the ultimate funding allocations to the various educational units and campuses.

Agency Highlights

Montana University System Major Budget Highlights	
<ul style="list-style-type: none"> ◆ Overall, the executive budget increases the Montana University System budget in the 2011 biennium by \$23.8 million, a 4.6 percent increase from the 2009 biennium ◆ In dollar terms, the majority of the general fund increase (\$23.7 million of the \$25.0 million biennial increase) goes toward present law cost increases at the educational units and research/public service agencies but in percentage terms, the largest general fund increase (12.7 percent) goes toward student assistance programs ◆ The executive budget emphasizes two year education by adding \$100,000 in the 2011 biennium for the Deputy Commissioner for Two Year Education position in OCHE; increasing base funding for tribal colleges that serve non-beneficiary students by \$922,000; and increasing state funds for community college assistance by \$811,000 ◆ The College Affordability Plan, which resulted in a resident tuition rate freeze at the MUS education units for both years of the 2009 biennium, is not continued in the executive budget in the 2011 biennium 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Given that the executive budget proposal is based upon public policy decisions, rather than statutory formulas, the legislature may want to consider other funding levels for the MUS educational units and/or community colleges to address concerns about access and affordability of higher education ◆ Bitterroot Valley Community College will need a legislative appropriation if the legislature passes the joint resolution forming the new community college district ◆ The legislature may want to consider funding additional dental slots in WICHE as recommended by the interim legislative Postsecondary Education Policy and Budget Subcommittee resulting from an interim study, but excluded in the executive budget ◆ The legislature may want to consider monitoring the progress of implementing a two year education structure or system in Montana during the 2011 biennium if the funding for the deputy commissioner for two year education position is approved by the 2009 Legislature 	

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

Goals and Objectives from the 2009 Biennium

The following provides an update in the major goals monitored during the 2009 interim.

Goal #1 – Increase Educational Attainment of Montanans -- Promote education affordability in the MUS for Montana resident students as measured by:

- o Freezing resident tuition rates at the MUS educational units at the FY 2007 level for FY 2008 and FY 2009
- o Increasing the amount of state support as a percentage of total personal income, relative to peer states and historical levels
- o Decreasing tuition as a percentage of median household income

Success: Resident tuition rates at the MUS educational units were frozen at the FY 2007 level for both years of the 2009 biennium

Goal #2 – Increase Educational Attainment of Montanans -- Make higher education more affordable by offering more need-based financial aid grants and scholarships as measured by:

- o Percentage of students who receive financial aid
- o Average state funded aid/scholarship award amount
- o Amount of “unmet” student need

Challenges: State funding for need-based aid is about 53 percent of the regional average. The amount of unmet student need for financial aid in Montana (defined as the cost of attendance minus the expected family contribution and average aid award to eligible students) is about \$10,200 per student eligible for financial aid, or about \$70 million for the number of Pell grant recipients in FY 2007.

Goal #3 – Improve Institutional System Efficiency and Effectiveness - Improve the transferability of student credits/coursework between the campuses of the MUS (including the community colleges) as measured by:

- o Implementation of common course numbering
- o Development of a centralized, web-based computer program to demonstrate transferability of courses throughout the MUS

Success: The MUS projects 12 disciplines will complete common course numbering by January 2009 and 10 additional disciplines will complete common course numbering by June 2009.

Success: The MUS has developed a computer program that demonstrates transferable courses across the university system and the website will go live on January 1, 2009.

Challenges: This initiative will take two biennia to implement. All remaining disciplines are projected to have common course numbering implemented by June 2011.

Goal #4 – Increase Educational Attainment of Montanans -- Improve distance and online learning by coordinating online delivery of education across the MUS as measured by:

- o The number of students enrolled in distance learning education courses
- o The number of distance learning courses and programs offered
- o The number of distance learning programs for career training students and employers

Success: The MUS established a target of a 10 percent increase for each of the measurements listed. The number of students enrolled increased 26 percent from Fall 2006 to Fall 2007, the number of online courses and programs offered increased 19 percent from Fall 2006 to Fall 2007, and the number of workforce development degree programs and certificates offered increased 9 percent from Fall 2006 to Fall 2007.

Goals and Objectives and the 2011 Biennium Budget

In July 2006, the Montana Board of Regents adopted a comprehensive strategic plan intended to define goals and set the priorities for higher education in the state of Montana. The Regents approved an update to the strategic plan in July 2008. This strategic plan is posted on the Regents' website at: http://mus.edu/data/Strategic_plan_final_Oct2008.pdf

The strategic plan is anchored by three overarching, fundamental goals for the university system, including:

- o Increase educational attainment of Montanans
- o Assist in the expansion and improvement of the economy
- o Improve institutional efficiency and effectiveness

This plan describes strategic initiatives the MUS will undertake to achieve each goal and measurable objectives to evaluate progress toward each goal. It is apparent that this strategic plan is intended to apply to each university unit and all programs under the control of the Regents and the commissioner of higher education. The Postsecondary Education Policy and Budget Subcommittee (PEPB) of the Education and Local Government interim legislative committee has also endorsed these goals and measurable objectives (accountability measures).

Increase Educational Attainment of Montanans -- Two Year Education

Both the Board of Regents and the PEPB dedicated a large portion of their work during the 2007-08 interim on increasing enrollment in two year education and developing a two year education structure or system in Montana. The 2009 Legislature will decide whether to approve the formation of a new community college district in Ravalli County, Montana. In addition, the executive budget would add \$100,000 general fund in the 2011 biennium to fund the Deputy Commissioner for Two Year Education position recently created by the Board of Regents. The formation of a two year education structure or system in Montana, as well as strategies to increase postsecondary enrollment in two year education, falls under the overarching goal to increase educational attainment of Montanans.

The legislature may wish to include two year education as one area to monitor during the 2009-10 interim. See the discussion in the Workforce Development Program later in this narrative for more specific information.

Increase Educational Attainment of Montanans -- Access and Affordability

The goal of promoting education affordability for Montana resident students was addressed in the 2009 biennium by the College Affordability Plan (CAP) that resulted in a resident tuition rate freeze for both years of the 2009 biennium. The executive budget does not continue the CAP into the 2011 biennium. One potential impact of discontinuing the CAP is that tuition rates will increase in the 2011 biennium.

The legislature may want to monitor the measurable objectives identified in the Board of Regents 2008 Strategic Plan for this goal, including:

- o Specific tuition guidelines
- o State support as a percentage of total personal income
- o Tuition as a percentage of median household income

This goal is discussed in more detail in the Appropriation Distribution Program.

Deliver Efficient and Coordinated Services – Common Course Numbering

As noted in the previous section, the transferability initiative funded by the 2007 Legislature and implemented by the Board of Regents during the 2009 biennium will take two biennia to implement. Transferability has been an area of significant interest by the legislature for many years. The executive budget continues base funding for the transferability initiative totaling \$535,000 in the 2011 biennium.

The legislature may wish to continue to monitor this goal during the 2011 biennium as the MUS completes its initial effort toward common course numbering and improving transferability for students.

Impact of Proposed Executive Budget

The impact of general fund spending in the executive budget is illustrated in the figure below, which demonstrates the funding levels for each of the major functional areas of the MUS and shows the percent change from the 2009 biennium.

As the table illustrates, the overall increase in general fund and other state revenue spending for the 2011 biennium is \$28.3 million, a 7.3 percent increase. The most significant biennial increases occur in the following programs:

- o University educational units receive a \$21.9 million biennial increase, primarily for present law adjustments
- o The Governor's Postsecondary Scholarship program increases by \$960,000 and is projected to provide awards to 3,580 students in the 2011 biennium, up from 3,137 students in the 2009 biennium
- o The WICHE/WWAMI/MN Dental program increases \$1.1 million in the 2011 biennium due to rising tuition rates at participating universities
- o Tribal College Assistance increases by \$923,000
- o The Teacher Loan Forgiveness Program increases by \$1.12 million and is projected to provide awards to 100 additional recipients each year of the 2011 biennium

Montana University System - Impact of 2011 Biennium Executive Budget Across Functional Areas					
General Fund and State Special Revenue Only					
Budget Item	Actual FY 2008	Budgeted FY 2009	Exec. Budget FY 2010	Exec. Budget FY 2011	% Change 09-11 Bien.
Education Services					
University Educational Units	\$142,509,931	\$153,344,611	\$158,115,687	\$159,670,846	7.41%
Resident Student Enrollment	26,278	26,756	26,756	26,756	0.90%
State Funds/Student	\$5,423	\$5,731	\$5,910	\$5,968	6.48%
Community College Assistance	\$8,710,093	\$9,420,368	\$9,425,642	\$9,515,684	4.47%
Resident Student Enrollment	2,059	2,224	2,219	2,219	3.6%
State Funds/Student	\$4,230	\$4,236	\$4,248	\$4,288	0.8%
Tribal College Assistance	\$450,002	\$450,000	\$911,402	\$911,402	102.53%
Non-Beneficiary Students	301	302	302	302	0.18%
State Funds/Student	\$1,493	\$1,488	\$3,013	\$3,013	102.17%
Research/Public Service Agencies	\$22,371,944	\$23,220,095	\$23,527,718	\$23,726,641	3.6%
Student Grants/Assistance					
WICHE/WWAMI/MN Dental	\$5,057,719	\$5,382,581	\$5,634,971	\$5,863,845	10.14%
Number of Students	165	169	169	170	1.50%
State Funds/Student	\$30,653	\$31,850	\$33,343	\$34,493	8.53%
Gov's Postsecondary Scholarships	\$1,507,000	\$2,533,000	\$2,500,000	\$2,500,000	23.76%
Number of Students	1,336	1,801	1,790	1,790	14.12%
State Funds/Student	\$1,128	\$1,406	\$1,397	\$1,397	10.21%
Baker Grants	\$2,018,775	\$2,018,775	\$2,018,775	\$2,018,775	0.00%
Number of Students	2,431	2,444	2,440	2,440	0.10%
State Funds/Student	\$830	\$826	\$827	\$827	-0.10%
Montana Higher Education Grants	\$508,414	\$498,747	\$508,414	\$508,414	0.96%
Number of Students	975	974	970	970	-0.46%
State Funds/Student	\$521	\$512	\$524	\$524	1.43%
State Work Study Program	\$862,989	\$862,989	\$862,989	\$862,989	0.00%
Number of Students	773	780	780	780	0.45%
State Funds/Student	\$1,116	\$1,106	\$1,106	\$1,106	-0.45%
State Match to Federal Grants	\$656,211	\$665,878	\$656,211	\$656,211	-0.73%
Number of Students	2,726	2,860	2,860	2,860	2.40%
State Funds/Student	\$241	\$233	\$229	\$229	-3.10%
Teacher Loan Forgiveness Program	\$307,280	\$676,175	\$900,000	\$1,200,000	113.53%
Number of Recipients	104	200	300	400	130.26%
State Funds/Recipient	\$2,955	\$3,381	\$3,000	\$3,000	-5.30%
Administration/Special Programs	\$2,697,730	\$3,574,893	\$3,085,961	\$3,053,577	-2.12%
Total General Fund & State Special Rev.	\$187,658,088	\$202,648,112	\$208,147,770	\$210,488,384	7.26%
Sources SABHRS FY 2009 ongoing appropriations; student service data from OCHE, November 2008 FY 2008 Actual and 2011 Biennium Executive Budget from MBARS					
Figures for all years exclude Miscellaneous Sub-Programs at University Units					

Governance and Legislative Appropriations Authority

Although the Board of Regents is organizationally placed in the Executive Branch, the Montana Constitution grants the Regents broad governing authority over the Montana University System (MUS). Article X, Section 9, of the Montana Constitution provides “the government and control of the Montana University System is vested in the Board of Regents, which shall have full power, responsibility, and authority to supervise, coordinate, manage, and control the...system.” The powers and duties of the seven-member Board of Regents are further described in 20-25-301, MCA.

On the other hand, while the Montana Constitution grants governance authority to the Regents, the power to appropriate state funds remains with the legislature. The Montana University System receives funding from a variety of government sources, including state general fund and revenue from the six-mill property tax levy. These funds must be appropriated by the legislature. With this “power of the purse” typically comes the authority to attach policy decisions to the funding.

The product of higher education is, for the most part, the delivery of services to private individuals who pay directly for these services in a contractual manner. So the university system is also supported with “private revenue” that individuals contract for, specifically tuition for educational instruction, residence hall fees for housing, meal allowance for food service, ticket prices for athletic and arts events, etc. The legislature does not have any appropriations authority over these private revenue funds that go to the university system.

Within this constitutional configuration and diverse revenue sources, therefore, a tension exists between Regents’ autonomy that comes with governance authority and the power that comes from the legislative appropriation of state funds. Through a series of legal decisions, this tension has been reconciled as follows:

- o The Montana legislature cannot do indirectly, through fiscal appropriation, what it is not permitted to do directly by the Constitution. In other words, the appropriation of state funds cannot be used to blatantly drive university governance policy, as governance is the constitutional role of the Board of Regents
- o Legislative appropriation power does not extend to private funds received by state government that are restricted by law, trust agreement, or contract, such as student tuition and the other fees listed above
- o Legislative appropriation power does, however, allow the legislature to establish requirements that the university system must comply with, including audit, accounting, and other fiscal accountability measures
- o The legislature also may establish conditions on appropriated funds and, if the Board of Regents accepts the funds, then it also accepts those conditions

(Source: For more information about this Constitutional structure and history, see *The Structure of Higher Education in Montana: Meandering the Murky Line*, Montana Legislative Services Division, September 1999. Memo available at: <http://leg.state.mt.us/content/publications/services/legal/opinions/regents.pdf>)

Postsecondary Education Policy and Budget Subcommittee

During the 2007-08 interim the Postsecondary Education Policy and Budget Subcommittee (PEPB) of the Education and Local Government (ELG) interim legislative committee studied a wide spectrum of higher education issues and made recommendations summarized below.

HJR 22 Interim Study

The PEPB conducted the study requested by HJR 22, passed by the 2007 Legislature. This study resolution requested that an interim committee study repayment programs and other incentives to support access to dental care in the state, with an emphasis on rural areas. One of the recommendations resulting from the study that received unanimous support from the ELG was to expand the number of dental slots in the professional student exchange program by five slots per year.

The PEPB and ELG also supported study recommendations for other mechanisms to improve dental care in rural areas, including creation of a dental student loan repayment program administered through OCHE and creation of a dental

clinic extension program administered through MSU Bozeman. These recommendations would require specific legislation and are contained in a committee bill (LC 0152) that will be introduced in the 2009 session.

The executive budget does not include additional funding to implement any of the recommendations of the HJR 22 study.

College Affordability Plan

At its September 2008 meeting, the PEPB voted unanimously to recommend to the Governor and the Board of Regents that the College Affordability Plan (CAP) continue through the 2011 biennium if sufficient state revenue was available. As noted previously, the executive budget does not continue the CAP into the 2011 biennium.

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

Market Rate

- o The agency does not use the broadband pay plan.
- o About 80 percent of the agency's employees are covered by a university system classification and pay plan that does not use a singular market statistic or market ratio.
 - Low entry wage is 90 percent of the average wage for the same job among the lowest-paying one-quarter of Montana employers (75 percent of Montana employers pay higher). The high entry wage, on average, is about 115 percent of the low entry, near the 25th percentile average.
 - The average wage for current classified employees, who average about 9 years of service, is about 80 to 85 percent of the average Montana wage for the same job.
- o About 20 percent of the agency's employees are not covered by any classification and pay plan, but rather, are employed and paid under terms negotiated into individual employment contracts that last one year in duration and may be renewed or non-renewed at the agency's discretion.
 - The average salary is approximately 70 percent of the average for state institutional higher education administration offices nationwide, but the market statistic does not drive pay philosophy.
 - MUS contract professionals and administrators never obtain a legal property interest in (or rights to) their employment beyond the term of their annual contract. Property interest rights have a value, and not all state higher education systems operate similarly.

Vacancy

- o The MUS has seen slippage in its ability to recruit and retain capable employees as its current pay scales are declining in their market competitiveness.
- o Any additional resources like those requested in the salary initiative (but not included in the proposed executive budget) would be spent toward strategic pay adjustments to recruit and retain top performers instead of diluting the resources through across-the-board market ratio adjustments.
- o Agency funding sources is the largest obstacle in implementing merit and market pay plans.
- o Vacancies of qualified and experienced staff create a backlog of work and loss of experience which results in challenges to productivity, quality, and quantity of work.

Legislatively Applied Vacancy Savings

- o Vacancy savings is addressed the majority of the time by keeping positions open long enough to cover the vacancy savings necessary.

Pay Changes

- o For employees on the university system classified pay plan, the agency provided an across-the-board increase of 0.6 percent because recruitment-and-retention pressures (market pressures) were experienced similarly across all job categories.

- o For “non-classified” employees who are covered by annual individual employment contracts, the agency varied the 0.6 percent funding on the basis of performance or market, ranging from no raise for one employee to a high of 4.6 percent for the largest raise.

Retirements

- o Twelve employees in OCHE will be eligible for full retirement during the 2011 biennium, with pay out cost estimates ranging from \$200,000 to \$400,000 and funded primarily from general fund. Four employees retired during the 2009 biennium.
- o The department does anticipate retirements during the 2011 biennium and will recruit for replacements after keeping the positions open long enough to cover termination payouts that are not budgeted or funded and, therefore, must be paid for when incurred.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2011 Biennium Budget						
Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
01 Administration Program	\$ 5,284,221	\$ -	\$ 539,932	\$ 179,977	\$ 6,004,130	1.11%
02 Student Assistance Program	26,816,575	203,261	386,612	-	27,406,448	5.08%
03 Improving Teacher Quality	-	-	447,584	-	447,584	0.08%
04 Community College Assistance	18,941,326	-	-	-	18,941,326	3.51%
06 Educational Outreach & Diversity	146,687	-	12,727,918	-	12,874,605	2.38%
08 Work Force Development Pgm	280,127	-	12,590,080	-	12,870,207	2.38%
09 Appropriation Distribution	328,015,206	38,464,418	-	-	366,479,624	67.87%
11 Tribal College Assistance Pgm	1,822,804	-	-	-	1,822,804	0.34%
12 Guaranteed Student Loan Pgm	-	-	93,044,593	-	93,044,593	17.23%
13 Board Of Regents-Admin	100,261	-	-	-	100,261	0.02%
Grand Total	<u>\$ 381,407,207</u>	<u>\$ 38,667,679</u>	<u>\$ 119,736,719</u>	<u>\$ 179,977</u>	<u>\$ 539,991,582</u>	<u>100.00%</u>

Statutory Appropriations

The following figure shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations Montana University System					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<i>No Direct Bearing on Agency Operations</i>					
Establish/maintain Montana travel research program (at UM Missoula)	15-65-121	GF	\$0	\$0	\$0
		SSR	386,076	485,468	506,934
		Federal	0	0	0
		Subtotal	<u>\$386,076</u>	<u>\$485,468</u>	<u>\$506,934</u>
<i>Direct Bearing on Agency Operations</i>					
Pay admin costs of rural physician incentive program and educational debt of certain rural physicians	20-26-1503	GF	\$0	\$0	\$0
		SSR	194,101	220,000	220,000
		Federal	0	0	0
		Subtotal	<u>\$194,101</u>	<u>\$220,000</u>	<u>\$220,000</u>

The statutory appropriation for travel research is state special revenue from an allocation of the 4 percent lodging facility use tax. The funds are distributed to the University of Montana through the Office of the Commissioner of Higher Education.

The statutory appropriation for the rural physician incentive program is state special revenue from fees assessed to students preparing to be physicians in the field of medicine or osteopathic medicine who are supported by the state pursuant to an interstate compact for a professional education program in those fields. The assessment may not exceed 16 percent of the annual support fee paid by the state and may be used only to pay the educational debts of physicians who practice in rural or underserved areas and administrative costs of the program.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	170,167,847	170,167,847	340,335,694	89.23%	229,346,474	229,346,474	458,692,948	84.94%
Statewide PL Adjustments	(22,643)	(57,051)	(79,694)	(0.02%)	745,330	695,799	1,441,129	0.27%
Other PL Adjustments	18,720,778	20,597,718	39,318,496	10.31%	36,043,286	42,081,508	78,124,794	14.47%
New Proposals	916,339	916,372	1,832,711	0.48%	866,339	866,372	1,732,711	0.32%
Total Budget	\$189,782,321	\$191,624,886	\$381,407,207		\$267,001,429	\$272,990,153	\$539,991,582	

Agency Issues

State Percent Share and the Historical Impact on the University Educational Units

One of the budget formulas historically used to determine the state general fund appropriation for the university system is the state percent share formula. The historic state percent share formula is calculated as the percent of state funds appropriated for the university educational units to the total funds (e.g. state funds, tuition, interest earnings) budgeted for general operations at the university educational units and approved by the Board of Regents.

Essentially, this state percent share formula has been used to set the state share of funding of present law adjustments for the university educational units as well as determine the state share of funding for whatever pay plan is approved by the legislature. The figure below illustrates ten years of history of the funding mix for the university educational units and the trends for the various revenue sources, including the state percent share.

Historical Funding and State Percent Share - Educational Units Only
Montana University System
Fiscal Years 2000 - 2009

Budgeted Revenue by Source	FY 2000 Budgeted	FY 2001 Budgeted	FY 2002 Budgeted	FY 2003 Budgeted	FY 2004 Budgeted	FY 2005 Budgeted	FY 2006 Budgeted	FY 2007 Budgeted	FY 2008 Budgeted	FY 2009 Budgeted	Annual Percent Change
General Fund	\$ 94,922,977	\$ 95,844,703	\$104,849,450	\$101,347,323	\$107,186,837	\$101,381,233	\$111,395,004	\$112,552,060	\$125,093,960	\$138,977,163	4.33%
Student Tuition	108,577,974	112,934,296	120,897,552	147,022,505	158,086,393	172,721,055	188,215,243	206,049,651	204,832,437	204,032,754	7.26%
Six-Mill Levy	14,809,000	15,280,000	11,868,912	12,036,912	12,235,000	12,362,999	13,385,001	13,679,000	17,565,323	16,369,436	1.12%
Other	2,313,795	2,504,907	3,002,673	2,970,384	5,946,357	6,355,565	2,558,151	2,007,205	3,965,741	2,136,468	-0.88%
Total	\$220,623,746	\$226,563,906	\$240,618,587	\$263,377,124	\$283,454,587	\$292,820,852	\$315,553,399	\$334,287,916	\$351,457,461	\$361,515,821	5.64%
Total State Support	109,731,977	111,124,703	116,718,362	113,384,235	119,421,837	113,744,232	124,780,005	126,231,060	142,659,283	155,346,599	3.94%
State Percent Share	49.7%	49.0%	48.5%	43.1%	42.1%	38.8%	39.5%	37.8%	40.6%	43.0%	-1.61%

Sources: BOR Operating Budgets (Summary of Funding) FY 1988 - 1995
OCHE Submission to Legislative Audit Division (Cost of Education Historical Summary) FY 1996-2006
2007 - 2009 MBARS excluding OTO appropriations and Misc Sub-Programs

As the figure above illustrates, since FY 2000 student tuition has been the fastest growing revenue source for the university educational units, growing at about 7.3 percent per year, while overall state support has been growing 3.9 percent per year. In the meantime, the state percent share has gone from 49.7 percent in FY 2000 to 43.0 percent in FY 2008.

In the 2009 biennium, the executive recommended, and the legislature endorsed, a policy change to not use this historic state percent share formula to determine the level of present law adjustments for the university educational units. Rather, the formula proposed by the executive to establish the state percent share of funding for cost increases was calculated as the ratio of Montana resident and the regional exchange students in the Western Undergraduate Exchange Program (WUE) students as a percentage of total student enrollment at university unit campuses. This ratio was calculated at 84.7 percent for the base year (FY 2006) and was used as the state percent share of funding that was applied to the major budget and funding bills in the 2007 session. This policy change was significant as the historic state share formula that would have been used in the 2009 biennium was 39.5 percent.

In the 2011 biennium, the executive recommends reverting back to the historic state percent share formula for cost increases from FY 2009. That is, calculating the state percent share formula based upon the ratio of total state funds to total funds approved by the Board of Regents. For the 2011 biennium, this state percent share percentage is 42.1 percent.

This formula and the impact upon the budget are discussed below as part of Program 09, Appropriation Distribution.

University Tuition and Mandatory Fee Rates

The figure below illustrates the mandatory tuition and fee rates for the various educational institutions of the Montana University System, specifically the four-year degree and two-year degree schools, as well as the three community colleges.

Montana University System Resident Student Tuition and Mandatory Fee Rates for Educational Units and Community Colleges (1998 - 2008)												Annual Average Increase	Overall Increase
Campus Type	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008		
Four-year Campuses	\$2,629	\$2,834	\$2,952	\$3,062	\$3,428	\$3,956	\$4,124	\$4,500	\$4,942	\$5,331	\$5,404	7.5%	105.6%
Two-year Campuses	2,049	2,228	2,274	2,288	2,522	2,670	2,710	2,932	3,036	3,137	3,181	4.5%	55.2%
Community Colleges	1,423	1,473	1,605	1,619	1,797	1,891	2,122	2,318	2,502	2,744	3,079	8.0%	116.4%

Source: Montana University System - Inventory and Validation of Fees Report (1997-2007); OCHE (2008)
Four-year and Two-year campuses use weighted-average. Community Colleges use average rates

As this figure demonstrates, the tuition and mandatory fee rates paid by Montana students for postsecondary education have increased at a steady rate since 1998. The increase between FY 2007 and FY 2008 for the 4 year and 2 year

campus types is attributable to mandatory fee increases. Per the CAP agreement, tuition rates did not increase at the 4-year and 2-year units. However, both tuition and mandatory fees increased at community colleges between FY 2007 and FY 2008. The community colleges were not part of the CAP program in the 2009 biennium.

Long Range Building Program Funding

Long Range Building Program cash funds are appropriated in HB 5 rather than in HB 2. The figure below illustrates that the 2011 biennium executive budget proposes that the Montana University System receive \$13.15 million long range building program cash funding, \$7.60 million state building energy conservation program funds, and authorization for \$11.50 million non-state university funds for four projects across the campuses and research/public service agencies.

Long Range Building Program - 2011 Biennium							
Montana University System (MUS)							
Executive Recommendations - Cash Projects							
Executive Ranking of 60 Projects	Project	State Building		State Special Funds	Federal Special Funds	University Other Funds	Total
		Long Range Building Program Funds	Energy Conservation Program Funds				
1	Energy Conservation Improvements, MUS	\$7,000,000	\$7,600,000			\$4,500,000	\$19,100,000
22	Code/Deferred Maintenance, MUS	4,000,000				1,000,000	5,000,000
32	Renovate Hagener Science Center, MSU-N	2,150,000					2,150,000
44	General Spending Authority - UM	0				6,000,000	6,000,000
	Total	<u>\$13,150,000</u>	<u>\$7,600,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$11,500,000</u>	<u>\$32,250,000</u>

This information is presented in this section for information purposes only but for more information and detail about the Long Range Building Program see Section F of the Legislative Budget Analysis 2011 Biennium.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	22.40	22.40	24.40	24.40	22.40	24.40	2.00	8.93%
Personal Services	2,156,082	2,444,034	2,217,645	2,219,172	4,600,116	4,436,817	(163,299)	(3.55%)
Operating Expenses	541,685	1,016,337	724,793	683,835	1,558,022	1,408,628	(149,394)	(9.59%)
Equipment & Intangible Assets	21,389	11,244	21,389	21,389	32,633	42,778	10,145	31.09%
Local Assistance	0	0	8,907	8,893	0	17,800	17,800	n/a
Grants	0	0	0	0	0	0	0	n/a
Benefits & Claims	0	0	0	0	0	0	0	n/a
Transfers	0	0	49,107	49,000	0	98,107	98,107	n/a
Total Costs	\$2,719,156	\$3,471,615	\$3,021,841	\$2,982,289	\$6,190,771	\$6,004,130	(\$186,641)	(3.01%)
General Fund	2,360,914	3,068,865	2,658,586	2,625,635	5,429,779	5,284,221	(145,558)	(2.68%)
Federal Special	263,771	292,392	272,441	267,491	556,163	539,932	(16,231)	(2.92%)
Other	94,471	110,358	90,814	89,163	204,829	179,977	(24,852)	(12.13%)
Total Funds	\$2,719,156	\$3,471,615	\$3,021,841	\$2,982,289	\$6,190,771	\$6,004,130	(\$186,641)	(3.01%)

Program Description

The Office of the Commissioner of Higher Education (OCHE) Administration Program includes: 1) general administration of the university system, 2) academic, financial, and legal administration, 3) labor relations and personnel administration, and 4) student assistance administration. Article X, Section 9, of the Montana Constitution requires that the Board of Regents appoints the commissioner and prescribes his/her powers and duties.

Program Highlights

Administration Program Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The 2011 biennium program budget decreases three percent compared to the 2009 biennium because <ul style="list-style-type: none"> • Termination costs related to retirement that were paid in the base budget are not continued into the 2011 biennium • Budgeted vacancy savings for the 2011 biennium exceeds the actual vacancy savings realized in FY 2008 ◆ The Governor approved permanent funding for two positions authorized by the Board of Regents that had previously been funded from general fund transferred in from the Appropriation Distribution Program 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Agency fixed costs are overstated by approximately \$13,000 for the 2011 biennium 	

Program Narrative

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Please refer to the agency narrative for a discussion of the identified significant goals for the 2011 biennium.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor. Funding is primarily general fund. However, about 13 percent of the funding in the base year was from federal and proprietary revenue to support administrative overhead activities, such as accounting and payroll, for federal grant programs and proprietary programs administered by other OCHE programs (e.g. Talent Search, GEAR-UP, Perkins, Group Insurance, and MUS Workers Compensation).

Program Funding Table						
Administration Program						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 2,360,914	86.8%	\$ 2,658,586	88.0%	\$ 2,625,635	88.0%
01100 General Fund	2,360,914	86.8%	2,658,586	88.0%	2,625,635	88.0%
03000 Total Federal Special Funds	263,771	9.7%	272,441	9.0%	267,491	9.0%
03080 Che Indirect Cost Recovery	263,771	9.7%	272,441	9.0%	267,491	9.0%
06000 Total Proprietary Funds	94,471	3.5%	90,814	3.0%	89,163	3.0%
06539 Indirect Costs - Oche	94,471	3.5%	90,814	3.0%	89,163	3.0%
Grand Total	\$ 2,719,156	100.0%	\$ 3,021,841	100.0%	\$ 2,982,289	100.0%

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	2,360,914	2,360,914	4,721,828	89.36%	2,719,156	2,719,156	5,438,312	90.58%
Statewide PL Adjustments	(19,701)	(54,197)	(73,898)	(1.40%)	(14,688)	(55,785)	(70,473)	(1.17%)
Other PL Adjustments	112,434	113,946	226,380	4.28%	112,434	113,946	226,380	3.77%
New Proposals	204,939	204,972	409,911	7.76%	204,939	204,972	409,911	6.83%
Total Budget	\$2,658,586	\$2,625,635	\$5,284,221		\$3,021,841	\$2,982,289	\$6,004,130	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
	Fiscal 2010					Fiscal 2011			
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Total Funds
Personal Services					(59,512)				(57,957)
Vacancy Savings					(83,864)				(83,925)
Inflation/Deflation					3,030				3,563
Fixed Costs					125,658				82,534
Total Statewide Present Law Adjustments					(\$14,688)*				(\$55,785)*
DP 103 - Rent Increase	0.00	54,420	0	0	54,420	0.00	56,053	0	56,053
DP 104 - Distance Learning Assistance	0.00	58,014	0	0	58,014	0.00	57,893	0	57,893
Total Other Present Law Adjustments	0.00	\$112,434	\$0	\$0	\$112,434	0.00	\$113,946	\$0	\$113,946
Grand Total All Present Law Adjustments					\$97,746				\$58,161

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal service costs.

**LFD
ISSUE**

Fixed Costs Overstated – The executive budget includes a net of \$12,935 more fixed cost expense for insurance and messenger services than included on the Office of Budget and Program Planning fixed cost schedule for the 2011 biennium. These costs are funded primarily from state general fund (approximately 83 percent) in this agency. The legislature may want to reduce the fixed costs and related funding to the amount specified on the fixed cost schedule for the 2011 biennium.

Option 1 – Reduce costs and funding by \$12,935 for the 2011 biennium (approximately \$10,700 general fund, \$2,100 federal fund authority, and \$135 proprietary funds).

Option 2 – Take no action

DP 103 - Rent Increase - The Office of the Commissioner of Higher Education plans to move to a permanent location in FY 09. The executive budget includes an additional \$110,473 of general fund in the 2011 biennium for increased rent. Since the move will occur during FY 2009, the increased rent was not paid in the base year and therefore is requested as a present law adjustment. Programs 2, 6, and 8 are allocated rent increases to be paid from non-general fund sources.

**LFD
COMMENT**

The 2007 Legislature anticipated a large rent increase in this program during FY 2008 and FY 2009 due to the agency's anticipated move and provided a restricted appropriation for the increased expense. At the time this narrative was prepared (early November 2008), the agency did not have a final lease for the space they are moving into during FY 2009. The legislature may wish to request the agency provide the final lease and lease costs prior to finalizing the appropriation of this program for the 2011 biennium.

DP 104 - Distance Learning Assistance - The executive budget restores the distance learning budget to a total of \$225,000 per year, the same amount approved for base funding by the 2007 Legislature, to allow the program to continue to work with the campuses on a coordinated, system-wide approach to distance learning.

**LFD
COMMENT**

This initiative was monitored during the 2009 biennium by the Legislative Finance Committee and the Postsecondary Education Policy and Budget Subcommittee. For a discussion of this initiative, see the agency overview narrative.

New Proposals

New Proposals		Fiscal 2010				Fiscal 2011				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 102 - Information Resources, Planning, and Communication										
01	2.00	204,939	0	0	204,939	2.00	204,972	0	0	204,972
Total	2.00	\$204,939	\$0	\$0	\$204,939	2.00	\$204,972	\$0	\$0	\$204,972

DP 102 - Information Resources, Planning, and Communication - The executive budget includes approximately \$409,911 general fund for two positions, the Associate Commissioner for Planning and Policy and a public information

officer, that were created by the Board of Regents in 2004 and have been funded from general fund transferred from the Appropriation Distribution Program for several years.

LFD COMMENT	<p>In the 2009 biennium, the Board of Regents authorized a transfer of \$451,342 general fund from the Appropriation Distribution Program to the Administration Program for this purpose. Because the positions were designated as modified, or temporary, positions, the general fund used to pay these positions was not captured in the base budget.</p> <p>Some of the primary functions of these positions include:</p> <ul style="list-style-type: none">o Development of a strategic plan for the university system that reflects regents priorities and the university system's emphasis on access and affordability, workforce development, and efficiencyo Design, maintenance, and utilization of centralized data system to measure and track student success and transferability of credits, financial aid awarded to students, budget and financial records, and human resourceso Coordination of accountability efforts and relations with the legislature, executive branch, and public through consistent and responsive communications
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Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	1.50	1.50	1.50	1.50	1.50	1.50	0.00	0.00%
Personal Services	98,580	116,628	116,437	116,449	215,208	232,886	17,678	8.21%
Operating Expenses	38,660	39,753	48,658	46,698	78,413	95,356	16,943	21.61%
Local Assistance	116,000	120,000	125,000	130,000	236,000	255,000	19,000	8.05%
Grants	10,995,694	12,930,086	13,149,666	13,673,540	23,925,780	26,823,206	2,897,426	12.11%
Total Costs	\$11,248,934	\$13,206,467	\$13,439,761	\$13,966,687	\$24,455,401	\$27,406,448	\$2,951,047	12.07%
General Fund	10,956,182	12,833,387	13,143,849	13,672,726	23,789,569	26,816,575	3,027,006	12.72%
State Special	99,446	100,556	102,606	100,655	200,002	203,261	3,259	1.63%
Federal Special	193,306	272,524	193,306	193,306	465,830	386,612	(79,218)	(17.01%)
Total Funds	\$11,248,934	\$13,206,467	\$13,439,761	\$13,966,687	\$24,455,401	\$27,406,448	\$2,951,047	12.07%

Program Description

There are three distinct components to the Student Assistance Program (governed by Title 20, Chapters 25 and 26, MCA):

- The grant, loan, and work-study programs consist of financial need-based criteria for student awards as well as the merit-based component of the Governor's Postsecondary Scholarship Program, as follows:
 - The federal Leveraging Educational Assistance Partnership (LEAP) grant is matched by the state Baker grant program
 - The federal Supplemental Leveraging Educational Assistance Partnership (SLEAP) grant is matched by the Montana Higher Education Grant (MHEG) program
 - The federal Supplemental Educational Opportunity Grant (SEOG) grant program sends funds directly to MUS campuses and is matched by state general fund
 - The Perkins Federal Loan program sends funds directly to MUS campuses and is matched by state general fund
 - The Work Study Program is funded 70 percent from general fund with a 30 percent employer match
 - The Governor's Postsecondary Scholarship Program has both a need-based and merit component, both of which are supported entirely by general fund (20-26-601, MCA)
- The interstate student exchange and assistance programs have no financial need-based criteria for participants, and are entirely general fund programs that include:
 - The Western Undergraduate Exchange/Western Regional Graduate Program allows students from 14 participating states to enroll in designated postsecondary schools and pay reduced tuition rates that are less than the non-resident rate. These programs are part of the MUS membership agreement with the Western Interstate Commission for Higher Education (WICHE)
 - The WICHE Professional Student Exchange Program enables Montana students to enroll in 8 professional graduate studies programs in 13 participating states at reduced tuition rates as Montana pays negotiated support fees to subsidize students, who pay reduced tuition
 - The Washington, Wyoming, Alaska, Montana, and Idaho Cooperative Program (WWAMI) enables Montana students to attend the University of Washington School of Medicine at a reduced tuition rate as Montana pays a negotiated support fee to subsidize students
 - The Minnesota Dental Program enables Montana students to attend the University of Minnesota Dental School at a reduced tuition rate as Montana pays a negotiated support fee to subsidize students
- The Quality Educator Loan Assistance Program, which was created in SB 2 passed by the May 2007 Special Session with the objective of attracting public school teachers to underserved Montana school districts by providing state funding assistance to help those teachers pay outstanding student loans

- A qualifying educator is eligible for loan assistance for a maximum of four years and the annual maximum repayment amount is \$3,000
- This program is funded entirely from state general fund

Program Highlights

Student Assistance Program	
Major Budget Highlights	
◆	The executive budget includes three significant increases to general fund in the 2011 biennium as follows:
	• \$1.1 million to fund increases of student support fees for the WICHE/WWAMI/MN Dental professional student program
	• \$1.0 million to continue the Governor’s Scholarship Program at the level authorized for FY 2009
	• \$1.1 million to fully fund the Quality Educator Loan Assistance Program
Major LFD Issues	
◆	The legislature may want to consider funding additional dental slots in WICHE, as recommended by the interim legislative Postsecondary Education Policy and Budget Subcommittee resulting from an interim study, but excluded in the executive budget

Program Narrative

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Please refer to the agency narrative for a discussion of the identified significant goals for the 2011 biennium.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor. Funding for student assistance programs is included in the lump sum appropriation for the Montana University System (MUS).

Program Funding Table						
Student Assistance Program						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 10,956,182	97.4%	\$ 13,143,849	97.8%	\$ 13,672,726	97.9%
01100 General Fund	10,956,182	97.4%	13,143,849	97.8%	13,672,726	97.9%
02000 Total State Special Funds	99,446	0.9%	102,606	0.8%	100,655	0.7%
02846 Family Ed Savings Admin Fee	99,446	0.9%	102,606	0.8%	100,655	0.7%
03000 Total Federal Special Funds	193,306	1.7%	193,306	1.4%	193,306	1.4%
03164 State Student Incentive Grant	193,306	1.7%	193,306	1.4%	193,306	1.4%
Grand Total	\$ 11,248,934	100.0%	\$ 13,439,761	100.0%	\$ 13,966,687	100.0%

The Student Assistance Program is primary general fund, with additional federal matching funds, as well as some state special revenue to administer the college savings program.

Federal funds are granted to the states as an incentive and are required to be matched by general fund dollars. In both LEAP and SLEAP, state general fund appropriations (the MHEG and Baker programs) far exceed the one-to-one match

requirement, as federal appropriations have not kept pace with state appropriations for these two programs. Both the Governor's Postsecondary Scholarship Program and the Quality Educator Loan Assistance Program are funded entirely from state general fund. The figure below illustrates the funding levels for each of these student assistance grant programs for the 2009 biennium and the proposed executive funding level for the 2011 biennium.

Student Assistance - State/Federal Grant and Work Study Programs						
Fiscal 2008 through 2011						
Grant Program	Actual FY 2008	Op Plan FY 2009	Exec. Budget FY 2010	Exec. Budget FY 2011	Biennial \$ Change	Biennial % Change
Funded with State Funds:						
Baker Grants	\$2,018,775	\$2,018,775	\$2,018,775	\$2,018,775	\$0	0.0%
MT Higher Education Grant (MHEG)	508,414	498,747	508,414	508,414	9,667	1.0%
SEOG *	506,338	516,005	506,338	506,338	(9,667)	-0.9%
Perkins Loan *	149,873	149,873	149,873	149,873	0	0.0%
State Work Study	862,989	862,989	862,989	862,989	0	0.0%
Governor's Postsecondary Scholarships	1,507,000	2,533,000	2,500,000	2,500,000	960,000	23.8%
Quality Educator Loan Assistance	307,280	676,175	900,000	1,200,000	1,116,545	113.5%
Subtotal State Funds	\$5,860,669	\$7,255,564	\$7,446,389	\$7,746,389	\$2,076,545	15.8%
Federal Matching Funds:						
SLEAP Grant Program (Baker Match)	109,309	173,303	\$109,309	\$109,309	(\$63,994)	
LEAP Grant Program (MHEG Match)	83,997	99,221	\$83,997	\$83,997	(15,224)	
Subtotal Federal Funds	\$193,306	\$272,524	\$193,306	\$193,306	(\$79,218)	-17.0%
Total Funds	\$6,053,975	\$7,528,088	\$7,639,695	\$7,939,695	\$1,997,327	14.7%

* Represents the state match. The federal matching funds are distributed directly to university campuses.

The WICHE/WWAMI/MN Dental programs are completely state general fund. Work-study is 70 percent general fund with a 30 percent employer match as employers also pay employee benefits. The employers' portion of the work-study program is not included in HB 2.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	10,956,182	10,956,182	21,912,364	81.71%	11,248,934	11,248,934	22,497,868	82.09%
Statewide PL Adjustments	(7,305)	(7,302)	(14,607)	(0.05%)	(15,029)	(15,003)	(30,032)	(0.11%)
Other PL Adjustments	2,194,972	2,723,846	4,918,818	18.34%	2,205,856	2,732,756	4,938,612	18.02%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$13,143,849	\$13,672,726	\$26,816,575		\$13,439,761	\$13,966,687	\$27,406,448	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----					-----Fiscal 2011-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				(10,625)					(10,612)	
Vacancy Savings				(3,518)					(3,519)	
Inflation/Deflation				92					106	
Fixed Costs				(978)					(978)	
Total Statewide Present Law Adjustments				(\$15,029)					(\$15,003)	
DP 200 - Rent Increase	0.00	0	884	0	884	0.00	0	910	0	910
DP 201 - WICHE/WWAMI/MN Dental	0.00	577,252	0	0	577,252	0.00	806,126	0	0	806,126
DP 202 - GSL Reimbursement	0.00	32,000	0	0	32,000	0.00	32,000	0	0	32,000
DP 203 - Governor's Postsecondary Scholarship Program	0.00	993,000	0	0	993,000	0.00	993,000	0	0	993,000
DP 204 - Quality Educator Loan Assistance Program	0.00	592,720	0	0	592,720	0.00	892,720	0	0	892,720
DP 206 - Montana Family Education Savings Plan	0.00	0	10,000	0	10,000	0.00	0	8,000	0	8,000
Total Other Present Law Adjustments										
	0.00	\$2,194,972	\$10,884	\$0	\$2,205,856	0.00	\$2,723,846	\$8,910	\$0	\$2,732,756
Grand Total All Present Law Adjustments				\$2,190,827						\$2,717,753

Program Personal Services Narrative

Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

DP 200 - Rent Increase - The executive budget would add \$1,794 state special revenue for an anticipated rent increase in the 2011 biennium. The state special revenue is from the Montana Family Education Savings Program.

DP 201 - WICHE/WWAMI/MN Dental - The executive budget would add \$1.4 million general fund in the 2011 biennium to fund continuing student slots at anticipated increased tuition levels for the WICHE, WWAMI and MN Dental professional student exchange programs. The table below illustrates the adjustment for each program:

WICHE/WWAMI/MN Dental Program						
Present Law Adjustments - 2011 Biennium Executive Budget (DP 201)						
	FY 2008	FY 2009	FY 2010	FY 2011	Present Law Adjustments	
	Actuals	Budgeted	Projected	Projected	FY 2010	FY 2011
WICHE Annual Dues	\$ 116,000	\$ 120,000	\$ 125,000	\$ 130,000	\$ 9,000	\$ 14,000
WICHE Student Support	1,911,300	1,976,600	2,137,767	2,227,833	226,467	316,533
WWAMI Student Support	2,906,819	3,115,581	3,240,204	3,369,812	333,385	462,993
MN Dental Student Support	123,600	170,400	132,000	136,200	8,400	12,600
Total	\$5,057,719	\$5,382,581	\$5,634,971	\$5,863,845	\$577,252	\$806,126

LFD COMMENT

The present law increase in the professional student interstate exchange programs (WICHE/WWAMI/MN Dental) is caused solely by rising tuition rates at participating universities. As tuition rates increase, state support fees paid on behalf of Montana students increase. For the 2011 biennium, state support fees increase an average of \$2,690 per student slot in FY 2010 and \$3,840 per student slot in FY 2011, as compared to base year FY 2008 fees. On the other hand, the number of slots for Montana students remains essentially the same (339 in the biennium), with no program expansion for additional students.

LFD COMMENT (CONT.)

State support fees, based upon tuition rates, are negotiated by an interstate council upon which Montana is represented by the Commissioner of Higher Education and members of the legislature. Once negotiated and agreed upon, the legislature has no further control over these support fees so that any changes in expenditure levels in this program would require adjustments to the number of student slots that would be funded in the biennium.

The total costs for these programs are detailed in the following figure, which illustrates the number of student slots by profession and the state support fee for each.

2011 Biennium Executive Budget Proposal WICHE/WWAMI/MINNESOTA Dental Programs Office of the Commissioner of Higher Education

PROGRAM	FY 2010					FY 2011						
	Support Fee	New (1st Year) Students	Cost	Continuing Students	Cost	Total	Support Fee	New (1st Year) Students	Cost	Continuing Students	Cost	Total
WICHE												
Administrative Dues			\$125,000			\$125,000			\$130,000			\$130,000
Student Assistance:												
Medicine	\$28,300	6	\$169,800	19	\$537,700	\$707,500	\$29,300	6	\$175,800	19	\$556,700	\$732,500
Osteopathic Medicine	18,800	2	37,600	5	94,000	131,600	19,400	1	19,400	6	116,400	135,800
Dentistry	22,000	1	22,000	8	176,000	198,000	22,700	1	22,700	8	181,600	204,300
Veterinary Medicine	28,100	9	252,900	27	758,700	1,011,600	29,100	9	261,900	27	785,700	1,047,600
Podiatry	13,100	1	13,100	0	0	13,100	13,500	0	0	1	13,500	13,500
Optometry	15,100	1	15,100	2	30,200	45,300	15,600	1	15,600	3	46,800	62,400
Occupational Therapy	11,500	1	11,500	1	19,167	30,667	11,900	1	11,900	1	19,833	31,733
(Includes 1 @ clinical rate \$19,167 for FY 10 and \$19,833 for FY 11)												
Subtotal (WICHE Student Support)		21	\$522,000	62	\$1,615,767	\$2,137,767		19	\$507,300	65	\$1,720,533	\$2,227,833
TOTAL WICHE (Including Dues)						\$2,262,767						\$2,357,833
MINNESOTA DENTAL	22,000	2	44,000	4	88,000	132,000	22,700	2	45,400	4	90,800	136,200
WWAMI	54,003	20	0	60	3,240,204	3,240,204	56,164	20	0	60	3,369,812	3,369,812
TOTAL WICHE/WWAMI/MN		43	\$691,000	126	\$4,943,971	\$5,634,971		41	\$682,700	129	\$5,181,145	\$5,863,845

Notes:

- 1) Rates for all continuing occupational therapy students are calculated at 1 2/3 the annual support fee to include support for two clinical rotations (\$19,167 for FY 2010; \$19,833 for FY 2011)
- 2) The WWAMI support fee is calculated as an average per continuing student. Actual support varies by program year.

**LFD
ISSUE****Interim Legislative Committee Recommends Adding 5 Dental Slots**

The Postsecondary Education Policy and Budget Subcommittee (PEPB) of the Interim Education and Local Government Committee (ELG) undertook the study requested in HJR 22, passed by the 2007 Legislature. This study resolution requested an interim committee study repayment programs and other incentives to support access to dental care in the state, with an emphasis on rural areas. One of the recommendations resulting from the study that received unanimous support from the ELG was to expand the number of dental slots in the professional student exchange program by five slots per year. This would increase the number of dental slots to 20 each year. The additional general fund cost in the 2011 biennium for five new dental slots each year would be \$337,000. Because the dental academic program is typically four years, it would take until FY 2013 to fully implement this dental expansion. The additional general fund cost for five new dental slots, once the slots are completely filled, would be \$908,000 for the biennium (assuming support fees at the FY 2011 rate of \$22,700).

Although the ELG urged the Governor and the Board of Regents to include a request for funding five additional dental slots, neither the executive budget nor the agency request included the additional funding.

The PEPB and ELG also supported study recommendations for other mechanisms to improve dental care in rural areas, including creation of a dental student loan repayment program administered through OCHE and creation of a dental clinic extension program administered through MSU Bozeman. These recommendations would require specific legislation and are contained in a committee bill (LC 0152) that will be introduced in the 2009 session.

DP 202 - GSL Reimbursement - The executive budget would add \$2,200 general fund in the 2011 biennium to reimburse the Guaranteed Student Loan Program (GSL) at the same amount appropriated for this purpose in FY 2009. The reimbursement to GSL is for administrative support provided by that program for a number of student assistance programs, including the High School Honors Fee Waiver, the Governor's Postsecondary Scholarship Program, the Montana Higher Education Grant, the Baker Grant, and other programs.

DP 203 - Governor's Postsecondary Scholarship Program - The executive budget would add \$2.0 million general fund to fund existing students currently receiving scholarships in this program and to maintain the same level of funding from FY 2009.

**LFD
COMMENT**

The Governor's Postsecondary Scholarship Program was created in the 2005 session and students began receiving scholarships in the 2005-2006 academic year. Scholarships are renewable and may be used at both two-year and four-year institutions. Consequently, it has taken four years (through FY 2009) to "fill the pipeline" of scholarship recipients. Since the present law adjustment is calculated from the actual amount spent in FY 2008, the additional amount for the fourth year of the pipeline is included in the cost of this decision package.

DP 204 - Quality Educator Loan Assistance Program - The executive budget would add \$1.5 million general fund for this loan assistance program that was established in SB 2 by the May 2007 Special Session. This program provides loan assistance to qualified public school teachers in underserved Montana school districts for a maximum of \$3,000 a year for up to four years. The executive budget also includes a 0.50 FTE to assist in the administration of the program.

**LFD
COMMENT**

The executive budget proposes to operate the program at the statutory maximum of \$3,000 per recipient per year up to four years. The executive proposes to assist 100 new teachers each year for four years, so that the "plateau" number of teachers served would be 400 teachers, at an annual cost of \$1.2 million. Since this program began in FY 2008, the base year costs reflect only the first year of the program. By FY 2011, the program would be fully ramped up to assist 400 teachers.

**LFD
ISSUE**

Half-time position may not be needed

The agency-provided justification for this present law adjustment states that the 0.50 FTE position that was authorized to administer this program is not needed as the job duties have been allocated to two existing positions in the agency. The biennial amount of general fund included in the executive budget for this position is \$60,981. The legislature may want to consider eliminating this position and the associated funding or it may want to eliminate the position and redirect the funding towards additional teacher loan assistance.

DP 206 - Montana Family Education Savings Plan - The executive budget would add \$18,000 state special revenue funding through this decision package for anticipated cost increases relating to hiring a new third-party program manager for the Montana Family Education Savings Plan. The Montana 529 Education Savings Plan administrative costs are 100 percent funded by an annual administrative fee charged to non-resident investors.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
Personal Services	14,666	16,336	0	0	31,002	0	(31,002)	(100.00%)
Operating Expenses	1,936	2,364	2,003	2,009	4,300	4,012	(288)	(6.70%)
Grants	221,786	522,913	221,786	221,786	744,699	443,572	(301,127)	(40.44%)
Total Costs	\$238,388	\$541,613	\$223,789	\$223,795	\$780,001	\$447,584	(\$332,417)	(42.62%)
Federal Special	238,388	541,613	223,789	223,795	780,001	447,584	(332,417)	(42.62%)
Total Funds	\$238,388	\$541,613	\$223,789	\$223,795	\$780,001	\$447,584	(\$332,417)	(42.62%)

Program Description

Improving Teacher Quality is a federally funded grant program providing awards to fund partnerships between higher education and high-need K-12 school districts in order to provide professional development and teacher training that improves teaching methods and teaching skills in the classroom.

As part of the federal No Child Left Behind program, Improving Teacher Quality targets teacher training in "high-need school districts", defined as those where:

- o Not less than 20 percent of the students are from families with household income that is below the poverty line; and
- o A high percentage of teachers are without degrees in the academic areas and/or grade levels that they are teaching, or who hold less than standard teacher certification from OPI.

The federal grant requires that a partnership be developed that includes a postsecondary school of education, a postsecondary college of arts and sciences, and at least one "high need school district." In the past year, Improving Teacher Quality grants have provided skills training for K-12 teachers in Montana through educational partnerships with the following university institutions:

- o MSU Billings
- o UM Missoula and UM Missoula COT
- o Great Falls College of Technology and MSU Northern
- o MSU Bozeman
- o UM Western

And the following K-12 Curriculum Cooperatives:

- o The Montana Small Schools Alliance
- o The Montana North Central Education Service Region

Program Highlights

Improving Teacher Quality Program Major Budget Highlights	
♦	The executive budget reduces federal appropriation authority 43 percent over the 2011 biennium

Program Narrative

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Please refer to the agency narrative for a discussion of the identified significant goals for the 2011 biennium.

Funding

The following table shows program funding, by source, for the 2009 biennium adjusted base and the 2011 biennium as recommended by the Governor. Funding is entirely from federal revenue as described above. The executive budget would reduce the appropriation authority to spend the federal funds almost 43 percent in the 2011 biennium compared to the 2009 biennium.

Program Funding Table Improving Teacher Quality						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
03000 Total Federal Special Funds	\$ 238,388	100.0%	\$ 223,789	100.0%	\$ 223,795	100.0%
03183 Ed For Econ Security Grant	238,388	100.0%	223,789	100.0%	223,795	100.0%
Grand Total	\$ 238,388	100.0%	\$ 223,789	100.0%	\$ 223,795	100.0%

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	238,388	238,388	476,776	106.52%
Statewide PL Adjustments	0	0	0	0.00%	(14,599)	(14,593)	(29,192)	(6.52%)
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$223,789	\$223,795	\$447,584	

LFD COMMENT

Personal Services Statewide Present Law Adjustment

All personal services expenditures for the Improving Teacher Quality program are backed out of the FY 2008 base budget for each year of the 2011 biennium as the staff support for this program is provided in the OCHE Administration program. The personal services costs are then charged against the federal Improving Teacher Quality grant.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----					-----Fiscal 2011-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				(14,666)					(14,666)	
Inflation/Deflation				67					73	
Total Statewide Present Law Adjustments				(\$14,599)						
Grand Total All Present Law Adjustments				(\$14,599)						

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
Local Assistance	8,710,093	9,420,368	9,425,642	9,515,684	18,130,461	18,941,326	810,865	4.47%
Total Costs	\$8,710,093	\$9,420,368	\$9,425,642	\$9,515,684	\$18,130,461	\$18,941,326	\$810,865	4.47%
General Fund	8,710,093	9,420,368	9,425,642	9,515,684	18,130,461	18,941,326	810,865	4.47%
Total Funds	\$8,710,093	\$9,420,368	\$9,425,642	\$9,515,684	\$18,130,461	\$18,941,326	\$810,865	4.47%

Program Description

The Community College Assistance program distributes funds appropriated by the legislature to support Montana's three community colleges:

- o Dawson Community College located in Glendive
- o Flathead Valley Community College located in Kalispell and Libby
- o Miles Community College located in Glendive

Each community college district has an elected board of trustees who have governance authority over the college, but the trustees are subject to the supervision of the Board of Regents, as directed by Title 20, Chapter 15, MCA.

The funding formula and methodology for the state general fund appropriation to the community colleges is outlined in statute at 20-15-312, MCA. The general operating budgets of the community colleges are funded from a state general fund appropriation, student tuition and fees, a mandatory property tax levy, an optional voted levy, and other miscellaneous revenue funds. Only the state general fund appropriation is appropriated in HB 2.

Program Highlights

Community College Assistance Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The executive recommends stable funding ◆ The executive uses "base plus" budget approach rather than statutory funding formula <ul style="list-style-type: none"> • Resident enrollment is projected to increase 3.7 percent over the 2011 biennium • The executive recommends no resident tuition rate increases • The executive budget is not FTE-driven, so no enrollment reversion is required for the 2011 biennium 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Bitterroot Valley Community College will need a legislative appropriation if the legislature passes the joint resolution forming the new community college district ◆ The executive uses a different funding methodology than the methodology required in statute 	

Program Narrative

Statutory Funding Formula

The general fund appropriation level is determined, as defined by statute, by the three-factor funding formula that is a calculation of the cost of education, the resident student enrollment level, and the state percent share of funding that is determined by the legislature as a matter of public policy.

This formula is stated mathematically and the factors are defined as follows:

$$[(\text{Projected Student Enrollment} \times \text{Variable Cost of Education per Student}) + \text{Fixed Cost of Education}] \times \text{State Percent Share} = \text{State General Fund Budget}$$

- Projected Student Enrollment -- the aggregated FTE count that the three colleges project for each year of the proposed biennial budget
- Variable Cost of Education per Student -- the total variable costs for the base year divided by the actual FTE student enrollment for the base year (both derived from base-year CHE 201 form)
- Fixed Cost of Education -- the total fixed costs for the base year (derived from base-year CHE 201 form)
- State Percent Share -- the percent of the CHE 201 derived fixed + variable costs calculation that the legislature decides, as a matter of public policy, to support with a state appropriation. The state percent share factor is the mechanism through which the legislature exercises public policy in this formula, as the percent level established is purely a matter of the public policy decision the legislature makes based upon available state revenue and the amount of funding the legislature determines that state government should support Montana resident students attending community colleges

The total cost of education is rebased each biennium from the actual base year expenditures reported by the community colleges in the annual operating budgets submitted to and approved by the Montana Board of Regents. These base year expenditures are adjusted for one-time-only expenditures, such as the additional \$450,000 annual appropriation approved by the 2007 Legislature for the 2009 biennium.

Using this funding formula, the community college resident student enrollment projections for 2,219 FTE in both FY 2010 and FY 2011, the FY 2008 base year actual adjusted expenditures that establish a variable cost of education per FTE student at \$2,183, and a total fixed cost of education at \$14.4 million, the state appropriation for community college assistance is \$19.0 million in the 2011 biennium as the table below illustrates:

Community College Assistance Program - Calculation of General Fund Appropriation for the 2011 Biennium									
Using Statutory Funding Formula									
Includes a Fixed/Variable Cost Calculation at a 75/25 Ratio									
Budget Item Factors	Fiscal Year 2010				Fiscal Year 2011				Total Biennial Approp
	Dawson	Flathead Valley	Miles	Total	Dawson	Flathead Valley	Miles	Total	
Projected Resident Student FTE	372	1,435	412	2,219	372	1,435	412	2,219	
Fixed Cost of Education	\$2,383,292	\$8,180,758	\$3,853,788	\$14,417,838	\$2,383,292	\$8,180,758	\$3,853,788	\$14,417,838	
Variable Cost of Education per FTE	\$2,183	\$2,183	\$2,183	\$2,183	\$2,183	\$2,183	\$2,183	\$2,183	
State % Share of Cost of Education	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	
Calculated Total Funding Budget	\$1,575,316	\$5,577,488	\$2,343,320	\$9,496,124	\$1,575,316	\$5,577,488	\$2,343,320	\$9,496,124	\$18,992,248
DP 401 - Legislative Audit **	\$13,040	\$15,893	\$11,818	\$40,751					\$40,751
Total General Fund Budget	\$1,588,356	\$5,593,381	\$2,355,138	\$9,536,875	\$1,575,316	\$5,577,488	\$2,343,320	\$9,496,124	\$19,032,999

This total compares to a 2009 biennial total of \$18.1 million.

Comparison to Executive Budget Recommendation

Using the data and assumptions noted above, the legislative funding formula generates a biennial general fund appropriation that exceeds the executive budget recommendation by approximately \$92,000, or less than one-half of one percent.

The legislative funding formula is student FTE-driven. Therefore, the enrollment reversion requirements included in Section 17-7-142, MCA would apply and appropriate language specifying the variable cost of education per FTE would need to be added to the general appropriations act.

Public Policy

The public policy choice for the legislature is to establish the state share percentage it determines is appropriate based upon available state revenue and the amount of funding the legislature determines that state government should support Montana resident students attending community colleges. Using the fiscal and student FTE data in the funding formula for the 2011 biennium, each one percent change in state share impacts the calculated biennial general fund appropriation by \$385,000.

LFD COMMENT

Executive Budget Uses Different Budget Methodology

The executive developed its community college assistance funding proposal using a “base + inflation” methodology (similar to the Montana University System educational units and public service agencies) rather than the statutory formula.

The executive projected the total cost of education for the 2011 biennium by starting with base year actual adjusted expenditures reported by the community colleges in the annual operating budgets submitted to and approved by the Montana Board of Regents. Inflationary increases are included for operating expenses and merit/market adjustments are included for personal services costs. The executive budget estimates the total cost of education (general operating budgets) for the community colleges in the 2011 biennium will be \$42.7 million, about a 5 percent increase from the 2009 biennium.

The general operating budgets of the community colleges are funded from state general fund, student tuition and fees, local tax and non-levy revenue support, and other miscellaneous revenues. To estimate the state general fund appropriation, the executive budget projected revenue from non-state sources first and balanced the revenue requirements with general fund. In estimating the non-state revenue, the executive assumed:

- Miscellaneous and local tax and non-levy revenue would increase 1.6 percent each year of the 2011 biennium from the FY 2009 projection
- Resident tuition rates and tuition waivers would not increase
- Non-resident tuition revenue would increase about 1 percent in FY 2010 and 1.1 percent in FY 2011

The general fund appropriation recommended by the executive for the community colleges in the 2011 biennium, totaling \$18.9 million, is shown by community college on the table below

Community College Assistance Program (04) – 2011 Biennium Executive Budget Proposal

	Base FY 2008	Approp FY 2009	State Share Adjustment & Type (PL/NP) FY 2010	Executive Budget FY 2010	State Share Adjustment & Type (PL/NP) FY 2011	Executive Budget FY 2011	2009 Biennium Total	2011 Biennium Total	Biennial Percent Change
Dawson Community College	\$1,561,351	\$1,744,062	\$190,839 PL	\$1,752,190	\$195,073 PL	\$1,756,424	\$3,305,413	\$3,508,614	6.15%
Flathead Valley Community College	5,028,763	5,360,097	341,129 PL	5,369,892	415,036 PL	5,443,799	\$10,388,860	10,813,691	4.09%
Miles Community College	2,119,979	2,316,209	183,581 PL	2,303,560	195,482 PL	2,315,461	\$4,436,188	4,619,021	4.12%
Grand Total Program 04	<u>\$8,710,093</u>	<u>\$9,420,368</u>	<u>\$715,549</u>	<u>\$9,425,642</u>	<u>\$805,591</u>	<u>\$9,515,684</u>	<u>\$18,130,461</u>	<u>\$18,941,326</u>	4.47%

Source: SAHBRS data for Base Year Expenditures and the Executive 2011 Biennium Budget

**LFD
ISSUE**

Executive Budget includes pay plan costs in present law budget

The executive budget includes personal services costs that in previous biennia have been funded via the pay plan bill. For the 2011 biennium, the executive includes approximately \$98,400 general fund for employee merit and market salary adjustments. In the 2009 biennium, the legislature included funding for merit and market adjustments in the pay plan bill. The legislature may wish to discuss whether these costs for the university system should be budgeted in the same manner as other state agencies for the 2011 biennium, or if including these costs in the general appropriations act as recommended by the executive is acceptable.

**LFD
COMMENT**

The executive budget also includes a new proposal in the Montana Department of Labor and Industry budget, NP 102 – 21st Century Workforce, that would increase funds for workforce training at community colleges and enable quick response to rapid growth in high demand fields. The executive budget does not specify how much of this new proposal is earmarked for the community colleges.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Community College Assistance						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 8,710,093	100.0%	\$ 9,425,642	100.0%	\$ 9,515,684	100.0%
01100 General Fund	<u>8,710,093</u>	<u>100.0%</u>	<u>9,425,642</u>	<u>100.0%</u>	<u>9,515,684</u>	<u>100.0%</u>
Grand Total	<u>\$ 8,710,093</u>	<u>100.0%</u>	<u>\$ 9,425,642</u>	<u>100.0%</u>	<u>\$ 9,515,684</u>	<u>100.0%</u>

The Community College Assistance program is funded entirely with general fund. The executive budget would increase the state appropriation for community colleges by 4.5 percent in the 2011 biennium from the 2009 biennium.

The community colleges use the higher education fund structure to account for revenues and expenditures, the same fund structure used by the educational units and higher education agencies. The state appropriation for the community colleges is a separate line item and is not part of the lump sum appropriation to the Montana University System educational units.

Enrollment Reversions

When the legislative appropriation for community colleges is established on the basis of an FTE-driven formula, as it was for the 2009 biennium, state statute requires that a portion of the legislative appropriation must be returned to the state if the community college does not meet the student FTE projections that were used to establish the appropriation. Section 17-7-142, MCA, allows the reversion to be based on the lower of the FTE resident enrollment projection and the actual FTE resident enrollment or the FTE resident enrollment projection and the prior three-year average FTE resident enrollment. HB 2 language further clarifies that the enrollment reversion calculation is a biennial calculation. The reversion, if any, is made at the end of the biennium.

Based upon resident FTE enrollment so far in the 2009 biennium, the Legislative Fiscal Division estimates that the total reversion for the 2009 biennium will be approximately \$360,000, or about 1.9 percent of the 2009 biennium legislative appropriation. The actual reversion amount, if any, will be calculated when the Spring Semester 2009 enrollments are reported.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	8,710,093	8,710,093	17,420,186	91.97%	8,710,093	8,710,093	17,420,186	91.97%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	715,549	805,591	1,521,140	8.03%	715,549	805,591	1,521,140	8.03%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$9,425,642	\$9,515,684	\$18,941,326		\$9,425,642	\$9,515,684	\$18,941,326	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 401 - Audit Costs	0.00	40,751	0	0	40,751	0.00	0	0	0	0
DP 403 - Increase Funding to Cover the Costs of Present Law	0.00	674,798	0	0	674,798	0.00	805,591	0	0	805,591
Total Other Present Law Adjustments	0.00	\$715,549	\$0	\$0	\$715,549	0.00	\$805,591	\$0	\$0	\$805,591
Grand Total All Present Law Adjustments					\$715,549					\$805,591

Program Personal Services Narrative

No personal services are appropriated in this program.

DP 401 - Audit Costs - The executive budget would fund about one-half of the \$81,000 legislative audit costs for contract audits of FVCC, MCC, and DCC in the 2011 biennium. The audit costs would be allocated to the community colleges in the same ratio as they were funded last biennium with 32 percent or \$13,040 to DCC; 39 percent or \$15,893 to FVCC and 29 percent or \$11,818 to MCC.

DP 403 - Increase Funding to Cover the Costs of Present Law - The executive recommends base-plus funding for the community colleges, similar to the MUS educational units and agencies. In building these budgets, the executive assumed growth rates for particular funding sources per the following: local contributions increasing at 1.6 percent for each year of the biennium; a non-resident tuition increase of approximately 1.0 percent in FY 2010 and 1.1 percent in FY 2011; and statutory local government levy increases (15-10-420, MCA) at 1.6 percent in each year of the biennium. Additionally, the executive budget would fund the total resident student share, assumes a 0 percent resident student tuition increase, and a 100 percent fixed cost, 0 percent variable cost funding model. Under these assumptions, the executive budget recommends total state share of funding of 44.3 percent in FY 2010 and 44.4 percent in FY 2011, compared to the state share of actual base year funding of 42.6 percent in FY 2008.

LFD COMMENT

Although the executive budget indicates it assumes a 0 percent resident student tuition increase, the executive has no authority to establish tuition rates. Tuition rates for the community colleges are established by the local board of trustees and approved by the Montana Board of Regents.

**LFD
ISSUE***Policy Choice Needed on Funding Methodology*

The legislative funding formula uses a state percent share of 49.3 percent each year of the 2011 biennium while the executive budget would result in the state share of funding at 44.3 percent in FY 2010 and 44.4 percent in FY 2011, yet the difference in total state funds in dollars is only \$92,000. This apparent discrepancy is attributable to the executive estimating a total budget (funded by state, local, and tuition dollars) for the 2011 biennium that assumes certain inflationary increases and merit/market salary increases, thereby estimating a larger overall budget.

The legislative funding formula uses actual expenditures from the base year as the cost of education and does not attempt to project inflationary and other cost increases for the 2011 biennium. When the formula is reapplied for the 2013 biennium, actual FY 2010 costs will be used which undoubtedly will include inflationary and pay increases (such as those funded separately in the pay plan bill) not contemplated by the formula. This biennial re-basing of the cost of education was the mechanism the legislature determined would meet the need for simplicity and transparency for this formula component.

Section 20-15-310, MCA, states that it is the intent of the legislature that all community college spending, other than from restricted funds, designated funds, or funds generated by an optional, voted levy, be governed by the provisions of this section of law and the state general appropriations act. This section of law requires the state general fund appropriation be determined with the legislative funding formula described in this narrative.

The legislature needs to determine which policies inherent in the alternative funding methodologies it wishes to adopt when it establishes the community colleges' state appropriation and whether these policies are consistent with the statutory funding formula requirements for the community colleges.

The policies inherent in the executive methodology are:

- o The cost of education should reflect actual base year costs and inflationary adjustments;
- o Enrollment levels do not impact costs; and
- o Non-state revenues are estimated first, then state appropriation requirements are calculated

The policies inherent in the legislative funding formula are

- o The cost of education should reflect actual base year costs which are rebased each biennium;
- o A portion of the community colleges' costs vary with the number of students served; and
- o The state share percentage is a legislative decision based upon available state revenue and the amount of funding the legislature determines that state government should support Montana resident students attending community colleges

**LFD
ISSUE***Legislature Facing Decision on Bitterroot Valley Community College District*

The 2009 Legislature will be hearing LC 0154, a joint resolution approving the establishment of the Bitterroot Valley Community College District in Ravalli County. This resolution was drafted upon the request of the Postsecondary Education Policy and Budget Subcommittee of the Education and Local Government Interim Committee, following the interim discussions with the district trustees-elect.

The Major Process Steps That Must be Achieved Before a New Community College District Can Operate

1. Title 20, Chapters 15 and 20 of the Montana Codes Annotated require the proposal for a new community college be presented to voters of the proposed community college district, and that the proposal pass.
2. Section 20-15-209, MCA requires that the Board of Regents certify the election results.
3. Section 20-15-209, MCA requires that the Board of Regents issue a recommendation to the legislature either for or against creation of a new community college district. This recommendation is non-binding.
4. The legislature passes a resolution authorizing the creation of a new community college district.
5. The legislature appropriates state funds for the new community college operation.

Status of Process to Establish Bitterroot Valley Community College District

1. Voters in the proposed Bitterroot Valley Community College district approved the proposal on May 8, 2007, with 52 percent for and 48 percent against the proposal.
2. The Board of Regents certified the election results on July 11, 2007.
3. The Board of Regents unanimously voted on December 4, 2008 to recommend to the 2009 Legislature that the proposed new community college district not be created. Additionally, the Board of Regents charged the Office of the Commissioner of Higher Education to work with the local community and consult with representatives from the PEPB to establish an innovative two-year education model in Ravalli County as an alternative to a new community college and to be prepared to discuss potential models with the 2009 Legislature.
4. The Postsecondary Education Policy and Budget Subcommittee approved a draft resolution approving formation of a new community college. This resolution, LC 0154, will be introduced in the 2009 Legislature.
5. Contingent upon passage of the resolution, the legislature could appropriate operational funds for the new community college during the 2009 session. This appropriation would likely be included in the general appropriations act (HB 2) for the 2011 biennium as well as the state pay plan bill (HB 13).

What is the Estimated State Cost for the Proposed Bitterroot Valley Community College?

The most recent cost estimates projected by the Bitterroot Valley Community College trustees-elect total \$4.0 million for the 2011 biennium, plus \$194,050 one-time-only costs to cover start-up costs incurred in FY 2009. If the legislature approves the resolution authorizing the formation of the new community college district, the total cost would be shared between the state, local community college district, and student tuition, similar to Montana's other community colleges.

Applying the legislative funding formula and the same assumptions used in the appropriation example presented earlier in this narrative, the state appropriation for the new community college would total \$1.8 million for the 2011 biennium. The \$194,050 one-time-only request and legislative audit costs would be in addition to the formula-generated amount.

Does the Executive Budget Include Funding for the Bitterroot Valley Community College?

The Bitterroot Valley Community College is not officially created unless and until the Montana Legislature approves the joint resolution creating formation of the community college district. Therefore, the executive budget did not include any funding recommendation for the Bitterroot Valley Community College.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

MUS Group Insurance -- Proposed Budget					
Budget Item	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE					
61000 Personal Services	\$326,088	\$28,034	\$354,122	\$28,088	\$354,176
62000 Operating Expenses	4,386,848	273,674	4,660,522	273,889	4,660,737
67000 Benefits & Claims	54,314,166	5,025,000	59,339,166	5,025,000	59,339,166
Total Costs	<u>\$59,027,102</u>	<u>\$5,326,708</u>	<u>\$64,353,810</u>	<u>\$5,326,977</u>	<u>\$64,354,079</u>

Program Description

The Board of Regents, through the Office of the Commissioner of Higher Education (OCHE), provides faculty and staff with group benefits through the Montana University System (MUS) Group Insurance Program, which includes a flexible spending account option. The commissioner is authorized by Board of Regents' policy to administer the program as a self-insured, group insurance plan. All university system employees and eligible dependents are offered medical, pharmacy, dental, vision, and group life insurance, as well as long-term disability benefits and long-term care benefits. Retirees and their enrolled dependents are eligible to continue medical and pharmacy coverage on a self-pay basis.

Program Highlights

MUS Group Insurance Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The fund balance is being reduced about \$6.5 million in FY 2009 to adjust the reserves to the level determined by the program's actuary as necessary ◆ Medical cost inflation is expected to continue to exceed general inflation

Program Narrative**Revenues**

Revenue in this program comes primarily from

- Employer-paid contribution toward insurance premiums
- Employee-paid contribution toward insurance premiums
- Employee payments to flexible spending accounts
- Interest earnings on the program fund

The program is intentionally reducing revenue in FY 2009, via a reduction in employee-paid premiums of about seven percent, as its reserves were higher than required to remain actuarially sound. Employee-paid premium rates will be reevaluated and amended as necessary prior to FY 2010.

Expenditures

Expenditures include administration of the program (with a total of 4.65 FTE in FY 2008), wellness program expense, claims management, and insurance claims payments. The agency expects claims to total approximately \$63.7 million each year of the 2011 biennium, up from \$58.2 million in FY 2008. The primary cost drivers impacting claims expense increases from the base year are medical provider cost increases (primarily cost shifts by hospitals and other medical

providers from Medicare/Medicare/uninsured clients) and increased utilization due to the increasing average age of insured covered in the plan.

Explanation of Rates

Because certain employee benefit plans require a large number of individual premiums for a variety of benefit options, the portion of these premiums paid by the state is statutorily established in 2-18-703, and the employee-paid portion of these premiums must be adjusted from time to time to maintain employee group benefit plans on an actuarially sound basis, the rates for the MUS Group Insurance Program mean the state contribution toward employee group benefits provided for in 2-18-703, and the employee contribution toward employee group benefits necessary to maintain the employee group benefit plans on an actuarially sound basis.

Rates are established and adjusted to maintain the MUS Group Insurance Program on an actuarially sound basis.

The following table shows historical and anticipated future sources and uses of funds for the operation of the enterprise fund that finances the MUS Group Health Insurance program.

2011 Biennium Report on Internal Service and Enterprise Funds - MUS Group Insurance ³				
Budget Item	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Beginning Working Capital Balance	<u>\$23,914,337</u>	<u>\$31,226,895</u>	<u>\$21,816,189</u>	<u>\$21,816,189</u>
Operating Revenues				
Premiums/Contributions	\$62,666,946	\$66,230,319	\$65,852,394	\$65,852,686
Other operating revenues ¹	<u>3,696,961</u>	<u>3,460,000</u>	<u>2,975,000</u>	<u>2,975,000</u>
Total Operating Revenues	\$66,363,907	\$69,690,319	\$68,827,394	\$68,827,686
Operating Expenses	<u>\$59,051,349</u>	<u>\$79,101,025</u>	<u>\$68,827,394</u>	<u>\$68,827,686</u>
Operating Gain (Loss)	<u>\$7,312,558</u>	<u>(\$9,410,706)</u>	<u>\$0</u>	<u>\$0</u>
Other sources (uses) of operating funds ²	\$0			
Prior period adjustments and accounting changes	<u>\$0</u>			
Ending Working Capital Balance	<u>\$31,226,895</u>	<u>\$21,816,189</u>	<u>\$21,816,189</u>	<u>\$21,816,189</u>
1 - Other operating revenues are from interest earned on account balance and other revenue				
2 - Other sources (uses) are from gain (loss) on sale of fixed assets				
3-Summarizes information provided to OBPP Fund 06010-CHE Wellness, Fund 06008-Group Insurance Program				

Funding

The MUS Group Insurance Program is funded entirely with enterprise type proprietary funds. The legislature does not appropriate these funds. However, the program is included in the executive budget and the information contained in this section of the narrative is intended to meet the statutory requirements for a report containing the financial status of enterprise type proprietary funds.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

MUS Group Insurance - Present Law Adjustments				
DP #/Name	FY 2010		FY 2011	
	FTE	Costs	FTE	Costs
PL 5000 Group Health Insurance	<u>0.00</u>	<u>\$5,725,000</u>	<u>0.00</u>	<u>\$5,725,000</u>
Total Present Law	<u>0.00</u>	<u>\$5,725,000</u>	<u>0.00</u>	<u>\$5,725,000</u>

PL5000 Group Health Insurance-- The executive budget increases estimated claims payments by \$5.5 million, and consulting and professional services by \$275,000, each year of the 2011 biennium from the amount expended in FY 2008.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	19.95	19.95	19.95	19.95	19.95	19.95	0.00	0.00%
Personal Services	758,599	997,062	1,014,148	1,014,492	1,755,661	2,028,640	272,979	15.55%
Operating Expenses	943,427	982,529	961,657	964,855	1,925,956	1,926,512	556	0.03%
Grants	915,547	2,783,424	4,119,453	3,000,000	3,698,971	7,119,453	3,420,482	92.47%
Transfers	900,000	900,000	900,000	900,000	1,800,000	1,800,000	0	0.00%
Total Costs	\$3,517,573	\$5,663,015	\$6,995,258	\$5,879,347	\$9,180,588	\$12,874,605	\$3,694,017	40.24%
General Fund	63,005	84,831	73,321	73,366	147,836	146,687	(1,149)	(0.78%)
State Special	0	0	0	0	0	0	0	n/a
Federal Special	3,454,568	5,578,184	6,921,937	5,805,981	9,032,752	12,727,918	3,695,166	40.91%
Total Funds	\$3,517,573	\$5,663,015	\$6,995,258	\$5,879,347	\$9,180,588	\$12,874,605	\$3,694,017	40.24%

Program Description

Educational Outreach & Diversity is primarily a federally funded program intended to decrease the dropout rate of low-income and at-risk students at the secondary school level, and to increase their enrollment in postsecondary education. The Educational Outreach & Diversity program has three components providing services to the target populations:

- o Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR-UP) is an early intervention and scholarship program that provides mentoring, counseling and outreach to build academic success that will lead to postsecondary education enrollment and achievement. The program provides these services to an entire cohort of students at participating schools starting in seventh grade, and the program services follow that cohort through high school completion.
- o Montana Educational Talent Search (METS) creates a long-term academic contract with middle school students that subsequently provide academic support, skills building, and counseling to encourage the planning, preparation and pursuit of a postsecondary education.
- o American Indian/Minority Achievement (AIMA) is responsible for American Indian and minority recruitment and retention in the university system, oversight for the campus diversity plans, and implementation of Indian Education for All programs in the university system. An overall objective of the program is to work with the campuses of the MUS in order to increase recruitment, enrollment, and graduation rates of American Indian and other minority students.

Program Highlights

Educational Outreach & Diversity Program	
Major Budget Highlights	
♦	Federal GEAR-UP grant expenditures are projected to nearly double in the 2011 biennium, totaling \$7.1 million

Program Narrative

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Please refer to the agency narrative for a discussion of the identified significant goals for the 2011 biennium.

Funding

The following table shows program funding, by source, for the 2009 biennium adjusted base and the 2011 biennium as recommended by the Governor.

Program Funding Table Educational Outreach & Diversity						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 63,005	1.8%	\$ 73,321	1.0%	\$ 73,366	1.2%
01100 General Fund	63,005	1.8%	73,321	1.0%	73,366	1.2%
03000 Total Federal Special Funds	3,454,568	98.2%	6,921,937	99.0%	5,805,981	98.8%
03042 2Nd Gear Up Grant	2,513,614	71.5%	5,733,269	82.0%	4,616,733	78.5%
03411 Gear Up Trio Scholarship	364,906	10.4%	499,958	7.1%	499,953	8.5%
03806 Talent Search	576,048	16.4%	688,710	9.8%	689,295	11.7%
Grand Total	\$ 3,517,573	100.0%	\$ 6,995,258	100.0%	\$ 5,879,347	100.0%

Overall, the budget would increase 40.2 percent due primarily to increased budgeted grant expenditures, which would nearly double in the 2011 biennium from the 2009 biennium.

GEAR-UP is funded by a federal grant that requires a 50 percent non-federal fund match, which is provided through allowable in-kind services. The METS program is funded 100 percent from federal funds, with no match requirement. The American Indian/Minority Achievement program is funded 100 percent from state general fund.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
	General Fund				Total Funds			
Budget Item	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	63,005	63,005	126,010	85.90%	3,517,573	3,517,573	7,035,146	54.64%
Statewide PL Adjustments	10,316	10,361	20,677	14.10%	260,584	263,730	524,314	4.07%
Other PL Adjustments	0	0	0	0.00%	3,217,101	2,098,044	5,315,145	41.28%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$73,321	\$73,366	\$146,687		\$6,995,258	\$5,879,347	\$12,874,605	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2010					Fiscal 2011				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				297,804					298,163
Vacancy Savings				(42,255)					(42,270)
Inflation/Deflation				6,091					8,851
Fixed Costs				(1,056)					(1,014)
Total Statewide Present Law Adjustments				\$260,584					\$263,730
DP 600 - Rent Increase	0.00	0	0	13,195	0.00	0	0	13,591	13,591
DP 601 - Additional Federal Authority for GEAR UP	0.00	0	0	3,203,906	0.00	0	0	2,084,453	2,084,453
Total Other Present Law Adjustments				\$3,217,101					\$2,098,044
				\$3,217,101					\$2,098,044
Grand Total All Present Law Adjustments				\$3,477,685					\$2,361,774

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

LFD COMMENT	The statewide present law personal services adjustment includes the implementation and annualization of the 2009 biennium pay increase and health insurance adjustments approved by the 2007 Legislature and restores salaries and benefits for vacancy savings realized in FY 2008. This program experienced 26 percent actual vacancy savings in FY 2008.
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DP 600 - Rent Increase - The executive budget increases federal spending authority for increased rent expenses allocated to the federal programs as a result of the agency moving to new office space in FY 2009.

DP 601 - Additional Federal Authority for GEAR UP - Montana GEAR UP operates under a six year discretionary federal grant. The executive budget includes additional federal authority that would allow all the GEAR UP grant to be expended and to provide federally funded college scholarships to GEAR UP students.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

MUS Workers Compensation Program -- Proposed Budget					
Budget Item	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE					
61000 Personal Services	\$78,926	(\$18)	\$78,908	(\$5)	\$78,921
62000 Operating Expenses	487,996	61,383	549,379	86,400	574,396
67000 Benefits & Claims	2,475,792	425,000	2,900,792	450,000	2,925,792
69000 Debt Service	25,297	0	25,297	0	25,297
Total Costs	<u>\$3,068,011</u>	<u>\$486,365</u>	<u>\$3,554,376</u>	<u>\$536,395</u>	<u>\$3,604,406</u>

Program Description

The Montana Board of Regents created the Montana University System Self-Funded Workers' Compensation Program in April 2003 as allowed by the Workers' Compensation Act in Title 39, Chapter 71 of the Montana Codes Annotated. This program, which became effective in July 2003, provides workers' compensation insurance coverage for all university system employees and employees of the Office of Commissioner of Higher Education. The MUS Self-Funded Workers' Compensation Insurance Committee, comprised of nine voting members, one from each of the eight participating campuses of the Montana University System and one from the Office of the Commissioner of Higher Education, is responsible for policy and management decisions of the program.

Program Highlights

MUS Self-Funded Workers Compensation Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ Bonds issued at the program's inception to establish a claim reserve have been retired, reducing program costs by \$436,000 annually ◆ Medical cost inflation and an aging workforce are contributing toward higher claims costs

Program Narrative*Revenues*

Revenue in this program comes from employer-paid premiums and interest earnings on the program fund.

Expenditures

Expenditures include claims, reinsurance premiums, and administrative costs. Claims are projected to increase by \$425,000 in FY 2010 and \$450,000 in FY 2011 from the base year. The primary cost drivers of increased claims cost in the self-insured workers compensation program are medical cost inflation and Montana's aging work force, which impact costs by lengthening the amount of time to heal and results in overall higher cost workers compensation claims.

Rate Explanation

Premium rates for the program are based upon commonly accepted actuarial principles developed by a qualified actuary and reviewed by the oversight committee. Two classifications are used to classify all MUS employees. The program does not currently use rate modifiers, rebates, or other premium adjustment methods. The oversight committee regularly evaluates surplus adequacy based on Montana Department of Labor (DOL) and industry benchmarks, market conditions,

and other related factors. The Montana University System must re-apply to the Montana Department of Labor for self-funding authority on an annual basis. To maintain self-funding the program must achieve DOL standards for a financially strong self-funding organization.

The following table shows historical and anticipated future sources and uses of funds for the operation of the enterprise fund that finances the MUS Workers Compensation Program.

2011 Biennium Report on Internal Service and Enterprise Funds MUS Self-Funded Workers Compensation Program				
Budget Item	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Beginning Working Capital Balance	<u>\$2,553,620</u>	<u>\$4,485,414</u>	<u>\$5,115,424</u>	<u>\$5,115,424</u>
Operating Revenues				
Premiums	\$4,659,752	\$4,224,000	\$3,354,457	\$3,404,495
Other operating revenues ¹	<u>339,028</u>	<u>139,000</u>	<u>200,000</u>	<u>200,000</u>
Total Operating Revenues	\$4,998,780	\$4,363,000	\$3,554,457	\$3,604,495
Operating Expenses	<u>\$3,066,986</u>	<u>\$3,732,990</u>	<u>\$3,554,457</u>	<u>\$3,604,495</u>
Operating Gain (Loss)	<u>\$1,931,794</u>	<u>\$630,010</u>	<u>\$0</u>	<u>\$0</u>
Other sources (uses) of operating funds ²	\$0			
Prior period adjustments and accounting changes	<u>\$0</u>			
Ending Working Capital Balance	<u>\$4,485,414</u>	<u>\$5,115,424</u>	<u>\$5,115,424</u>	<u>\$5,115,424</u>
1 - Other operating revenues are from interest earned on account balance				
2 - Other sources (uses) are from gain (loss) on sale of fixed assets				

Funding

The MUS Workers Compensation Program is funded with an enterprise type proprietary fund. The legislature does not appropriate these funds. However, the program is included in the executive budget and the information contained in this section of the narrative is intended to meet the statutory requirements for a report containing financial status of enterprise type proprietary funds.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

MUS Workers Compensation Program - Present Law Adjustments				
DP #/Name	FY 2010		FY 2011	
	FTE	Costs	FTE	Costs
PL 700 FTE to manage MUS Work Comp Program	1.00	\$78,908	1.00	\$78,921
PL 701 Workers Comp Operating and Benefits	<u>0.00</u>	<u>486,000</u>	<u>0.00</u>	<u>536,000</u>
Total Present Law	<u>1.00</u>	<u>\$564,908</u>	<u>1.00</u>	<u>\$614,921</u>

**LFD
COMMENT**

The statewide adjustments remove the personal services costs for a position that was approved by the Board of Regents subsequent to the last legislative session and hired in June 2007. The position was added as a modified position and the costs associated with that position do not automatically carry forward into the next biennium. See the discussion under PL 0700 below which would make this position permanent.

PL 0700—FTE to manage MUS Work Comp Program--The executive budget would add 1.0 FTE and about \$158,000 in the 2011 biennium for a position that was approved by the Board of Regents and hired in June 2007. Prior to the hiring of this position, a contractor was used to manage the program.

DP701—Increased Operating and Benefit Costs-- The executive budget adds \$1.02 million enterprise fund authority in the 2011 biennium for increased contract expense for claims management, increased indirect cost expense, and projected claims increases.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	5.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00%
Personal Services	310,557	336,825	402,674	403,420	647,382	806,094	158,712	24.52%
Operating Expenses	127,598	251,001	133,533	133,834	378,599	267,367	(111,232)	(29.38%)
Grants	1,943,715	3,332,707	2,474,726	2,474,726	5,276,422	4,949,452	(326,970)	(6.20%)
Transfers	3,073,647	3,450,443	3,423,647	3,423,647	6,524,090	6,847,294	323,204	4.95%
Total Costs	\$5,455,517	\$7,370,976	\$6,434,580	\$6,435,627	\$12,826,493	\$12,870,207	\$43,714	0.34%
General Fund	90,093	93,274	140,065	140,062	183,367	280,127	96,760	52.77%
Federal Special	5,365,424	7,277,702	6,294,515	6,295,565	12,643,126	12,590,080	(53,046)	(0.42%)
Total Funds	\$5,455,517	\$7,370,976	\$6,434,580	\$6,435,627	\$12,826,493	\$12,870,207	\$43,714	0.34%

Program Description

The OCHE and the Office of Public Instruction coordinate the primarily federal efforts to support vocational education at the secondary and post-secondary levels.

Program Highlights

Workforce Development Program Major Budget Highlights	
♦	The executive budget remains level in the 2011 biennium
♦	The executive recommends converting the Director of 2-Year Education position to the Deputy Commissioner for 2-Year Education and funding \$100,000 of the cost of the position over the 2011 biennium with general fund <ul style="list-style-type: none"> • The 2-year education goals associated with this budget initiative include increasing enrollment in 2-year education, increasing dual enrollment of high school students, increasing enrollment of non-traditional students in 2-year education, and increasing enrollment of low-income students in 2-year education

Program Narrative

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Please refer to the agency narrative for a discussion of the identified significant goals for the 2011 biennium.

Funding

The following table shows program funding, by source, for the 2009 biennium adjusted base and the 2011 biennium as recommended by the Governor. The executive budget would decrease overall funding by less than one percent in the 2011 biennium. General fund comprises a small portion of the budget and is used to match administrative costs funded from the federal grant. Montana receives an allocation of federal funds from the Carl D. Perkins Career and Technical Education Act. A large portion, over 50 percent, of these federal funds is transferred to the Office of Public Instruction for distribution to secondary schools. Another significant portion of the federal funds, about 40 percent, is granted to postsecondary institutions.

Program Funding Table Work Force Development Pgm						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 90,093	1.7%	\$ 140,065	2.2%	\$ 140,062	2.2%
01100 General Fund	90,093	1.7%	140,065	2.2%	140,062	2.2%
03000 Total Federal Special Funds	5,365,424	98.3%	6,294,515	97.8%	6,295,565	97.8%
03215 Carl Perkins Federal Funds	5,000,092	91.7%	5,866,500	91.2%	5,867,550	91.2%
03951 Tech Prep Grant	365,332	6.7%	428,015	6.7%	428,015	6.7%
Grand Total	\$ 5,455,517	100.0%	\$ 6,434,580	100.0%	\$ 6,435,627	100.0%

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	90,093	90,093	180,186	64.32%	5,455,517	5,455,517	10,911,034	84.78%
Statewide PL Adjustments	(28)	(31)	(59)	(0.02%)	90,294	91,108	181,402	1.41%
Other PL Adjustments	0	0	0	0.00%	888,769	889,002	1,777,771	13.81%
New Proposals	50,000	50,000	100,000	35.70%	0	0	0	0.00%
Total Budget	\$140,065	\$140,062	\$280,127		\$6,434,580	\$6,435,627	\$12,870,207	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					108,894					109,672
Vacancy Savings					(16,777)					(16,809)
Inflation/Deflation					382					440
Fixed Costs					(2,205)					(2,195)
Total Statewide Present Law Adjustments					\$90,294					\$91,108
DP 800 - Rent Increase	0.00	0	0	7,758	7,758	0.00	0	0	7,991	7,991
DP 801 - Increased Federal Authority for Perkins	0.00	0	0	881,011	881,011	0.00	0	0	881,011	881,011
Total Other Present Law Adjustments										
	0.00	\$0	\$0	\$888,769	\$888,769	0.00	\$0	\$0	\$889,002	\$889,002
Grand Total All Present Law Adjustments					\$979,063					\$980,110

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

**LFD
COMMENT**

The primary components driving the personal services adjustment are annualization of the 2009 biennium pay plan and an estimated \$48,500 each year for increased salary and benefits for upgrading the Director of 2-Year Education position to the Deputy Commissioner for 2-Year Education.

DP 800 - Rent Increase - The executive budget would increase federal spending authority for increased rent expenses allocated to the federal programs as a result of the agency moving to new office space in FY 2009.

DP 801 - Increased Federal Authority for Perkins - The executive budget would allow the commissioner's office to award the federally funded grants and to transfer the required federal funding to OPI.

New Proposals

New Proposals										
-----Fiscal 2010-----Fiscal 2011-----										
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 802 - Fund Deputy Commissioner for 2-Year Education										
08	0.00	50,000	0	(\$0,000)	0	0.00	50,000	0	(\$0,000)	0
Total	0.00	\$50,000	\$0	(\$50,000)	\$0	0.00	\$50,000	\$0	(\$50,000)	\$0

enrollment will increase 10 percent by the end of Fall 2010.

- o Increase dual enrollment of high school students by 10 percent over the biennium. Using Fall 2008 as the base semester, dual enrollment will increase 10 percent system-wide by the end of Fall 2010.
- o Increase enrollment of non-traditional students in 2-year education by 10 percent over the biennium. Using Fall 2008 as the base semester, enrollment of non-traditional students (25 years and older) in 2-year education will increase 10 percent by the end of Fall 2010.
- o Increase enrollment of low-income student in 2-year education by 10 percent over the biennium. Using Fall 2008 as the base semester, enrollment of low income students (Pell grant recipients) in 2-year education will increase 10 percent by the end of Fall 2010.

Milestones: They are included in the performance indicators above.

FTE: Deputy Commissioner of Two-year Education

Funding: General fund of \$50,000 per year or \$100,000 for the biennium is requested. If the decision package is approved, the expanded job duties of the Deputy Commissioner will be funded with general fund. Due to restrictions on the use of the federal funding, not all of the job duties of the Deputy Commissioner are allowable to be charged against the federal grant, and therefore, general fund is requested. The total salary cost per year, including benefits, is estimated to be \$153,200 and of this amount, \$50,000 per year would be funded with general fund. Funding for the 2013 biennium would be \$50,000 annually, plus approved pay plan increases.

Obstacles:

- o Montana's two-year colleges have three different models (tribal college, community colleges, and colleges of technology). In addition, many of Montana's four-year colleges include two-year programs. Each of the three models involves different governance and funding structure, some of which are ultimately governed by the Board of Regents, but some of which are only partially governed by the Board, and some of which are not within the Board's supervisory authority at all. Therefore, the biggest challenge is creating a coordinated, collaborative system.
- o Achieving a number of the goals – e.g., dual enrollment, Adult Basic Education – will be much easier if changes in statute and policy are successfully achieved.
- o Reaching low-income and adult populations will be much easier if two-year college tuition is significantly reduced or needs-based aid is significantly increased.
- o The use of technology to reach communities and areas currently underserved by the Montana University System is a crucial piece of the enrollment plan. Not having the appropriate technological “backbone” to support that kind of outreach would be an obstacle.

Risk:

- o Without much more accessible and effective dual enrollment opportunities, the cost of education for high school students will be higher than it is in other states and higher than it needs to be.
- o Because students who would prosper in a two-year college setting tend to choose the university setting in Montana, the cost of their education is higher and their persistence to degree is not what it could be.
- o Without a more collaborative and consistent approach to two-year education, the cost of education at Montana's two-year colleges will be higher than it is in other states and higher than it needs to be.
- o Over half of Montana's citizens without a high school diploma or the equivalent are neither working nor looking for work. They represent a pool of potential that the Montana economy cannot afford to leave untapped.
- o Unless we engage more adults in higher education, we will fail to move that sector of the population from unskilled, low-wage jobs to the skilled, high-wage jobs of the 21st century.
- o The difference in income between the adult without a two-year degree and the adult with at least an associate's degree is approximately 12 percent of the average annual income in Montana. This difference escalates with each higher degree.

**LFD
COMMENT**

The societal goals of two-year education are described in the Risk narrative above, namely improving the economic condition of persons in Montana without a higher education and improving college affordability by reducing the cost of attendance (price) to students. The legislature may wish to engage in discussion with the Montana University System on the specific strategies that are either in place or that will be used to accomplish the project outcomes identified above.

The legislature may also want to discuss with the Montana University System the statute changes that are necessary to achieve any of the project outcomes (see second bullet under Obstacles).

Finally, if the legislature funds this budget initiative it may want to monitor the initiative implementation during the 2011 biennium interim. This is discussed further in the agency summary section of the budget analysis narrative.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
Transfers	165,546,241	177,229,073	182,362,771	184,116,853	342,775,314	366,479,624	23,704,310	6.92%
Total Costs	\$165,546,241	\$177,229,073	\$182,362,771	\$184,116,853	\$342,775,314	\$366,479,624	\$23,704,310	6.92%
General Fund	147,491,080	160,297,751	163,380,562	164,634,644	307,788,831	328,015,206	20,226,375	6.57%
State Special	18,055,161	16,931,322	18,982,209	19,482,209	34,986,483	38,464,418	3,477,935	9.94%
Total Funds	\$165,546,241	\$177,229,073	\$182,362,771	\$184,116,853	\$342,775,314	\$366,479,624	\$23,704,310	6.92%

Program Description

The Appropriation Distribution Program in the Office of the Commissioner of Higher Education (OCHE) is the conduit through which state funds flow to: 1) the university system units and colleges of technology and other campus related appropriations; and 2) the research/public service agencies.

The program budget is organized in this section in the order listed below. Present law and new proposal adjustments together with explanations will be included with the following subprograms:

- o Educational Units (Montana State University campuses and University of Montana campuses)
- o Agricultural Experimental Station (AES)
- o Extension Services (ES)
- o Forestry and Conservation Experiment Station (FCES)
- o Montana Bureau of Mines and Geology (Bureau)
- o Fire Services Training School (FSTS)
- o Miscellaneous Subprograms

Program Highlights

Appropriation Distribution Program Major Budget Highlights	
♦	The executive increases state funding for the educational units and research/public service agencies \$23.7 million in the 2011 biennium from the 2009 biennium, primarily for present law adjustments
♦	The College Affordability Plan is not continued in the 2011 biennium
♦	The executive makes the 2009 biennium one-time-only funding for PBS permanent
Major LFD Issues	
♦	Given that the executive budget proposal is based upon public policy decisions, rather than statutory formulas, the legislature may want to consider other funding levels to address concerns about access and affordability of higher education

Program Narrative

Higher Education Funding

Determining the state appropriation for higher education in Montana is unlike any other state agency due to the diverse nature of funds that support the university system, the governance authority of the Board of Regents, and the fund structure used by the system. This section of the budget analysis narrative provides a brief background on higher education funding in Montana.

University Funds

The MUS is funded from several sources, including the state general fund and statewide six-mill levy, tuition and fees, federal and private grants, service fees, service operations, and other sources. Using national accounting standards and state statute, the university system classifies its revenue and expenditures into various fund types.

State funds appropriated for general operations and tuition are classified as “current unrestricted” funds. Revenues from state appropriations and tuition constitute the primary revenues for the current unrestricted fund at university educational units. The state funds appropriated to the university system for general operations (i.e. HB 2, pay plan) are deposited to the current unrestricted fund at each unit.

Other fund types include current restricted (federal grants), current designated (service fees), current auxiliary (service operations such as dormitories), student loan funds, endowment funds, plant funds, and agency funds (fiduciary).

Budget Approval

When the legislature provides an appropriation of state funds for the university system, the appropriation authority extends only to the state funds. State statute authorizes the MUS to expend state funds appropriated in the general appropriations act contingent upon regent approval of a comprehensive operating budget by October 1 of each fiscal year. The comprehensive operating budget approved by the regents each year includes the current unrestricted fund and the other funds listed above.

State’s Role

While the Montana Constitution grants governance authority to the Board of Regents, the power to appropriate state funds remains with the legislature. With this “power of the purse” comes the authority to attach policy decisions and accountability measures to the funding.

State funds are an important component of university funding because:

- o State general fund support is the second largest source of current unrestricted revenue for the MUS, after tuition
- o General fund appropriations in House Bill 2 provide the vehicle with which the legislature may have a public policy impact upon the MUS
- o Montana Supreme Court decisions say that the Regents’ power to govern must be harmonized with the legislature’s power to appropriate, set public policy, and ensure accountability of state revenue and expenditures

State Appropriations

The legislature considers many factors to develop the MUS appropriation including:

- o Projected student enrollment
- o Base year actual expenditures and funding
- o State funds available
- o Legislative priorities
- o Governor’s recommendation

- o Board of Regents' requests

Since the 1995 legislative session, the legislature has combined the appropriation for the six four-year campuses, five colleges of technology, and most of the Office of the Commissioner of Higher Education into a single, biennial lump-sum appropriation. Appropriations for the remaining units are contained in line items in the general appropriations act (House Bill 2). Long range building funds are appropriated in House Bill 5 for capital projects. The legislature also appropriates general fund to support the state pay plan that is applied to MUS employees.

State Percent Share

The state percent share is that proportion of the current unrestricted fund for the university educational units that is funded by state funds (general fund and six mill levy revenue). In FY1988 the state percent share of the university educational units' budget was 74 percent while in FY2008 the state percent share was 41 percent. This percentage is important as part of the university system budget because historically (the 2009 biennium being a recent exception) the actual state percent share level from the base year budget is used to drive state funding levels to support present law programs in the next budget. In the 2009 biennium, the legislature approved the Governor's College Affordability Plan proposal that funded budget increases based in the proportion of Montana resident students to total enrollment and resulted in zero tuition rate increases for Montana students in FY 2008 and FY 2009.

Tuition Revenue

The Board of Regents is the sole authority in setting the tuition rates for the MUS. Tuition is not controlled or appropriated by the legislature. Tuition revenue fills the "gap" between the approved expenditure budget for educational units and state funds appropriated by the legislature (general fund and six mill levy revenue).

Proposed Executive Budget

The 2011 biennium proposed executive budget would increase state funding to the Montana University System educational agencies and research/public service agencies 6.9 percent from the 2009 biennium. Biennial budget increases would range from 1.8 percent at the Forest and Conservation Experiment Station to 25 percent for the Motorcycle Safety program at Montana State University-Northern.

The executive budget holds resident student enrollment projections at the same level (26,756) as last biennium's projection. No budget adjustment is included in the executive budget for enrollment.

The figure below presents historical actual student FTE enrollment since FY 1998 and budgeted student FTE enrollment for the 2011 biennium for the Montana University System educational units.

Montana University System Student FTE Enrollment Fiscal 1998 - Fiscal 2011					
Fiscal Year	Resident Student FTE	Annual % Change	Change from Base	Total Student FTE	Resident as a % of Total
FY 98 Actual	24,323			31,227	77.9%
FY 99 Actual	24,436	0.5%		31,383	77.9%
FY 00 Actual	24,605	0.7%		31,498	78.1%
FY 01 Actual	24,851	1.0%		31,566	78.7%
FY 02 Actual	25,565	2.9%		32,090	79.7%
FY 03 Actual	26,225	2.6%		32,673	80.3%
FY 04 Actual	26,828	2.3%		33,181	80.9%
FY 05 Actual	26,321	-1.9%		32,763	80.3%
FY 06 Actual	26,422	0.4%		33,089	79.9%
FY 07 Actual	26,298	-0.5%		33,138	79.4%
FY 08 Actual (Base)	26,278	-0.1%		33,349	78.8%
FY 09 Projected	26,565	1.1%		33,743	78.7%
FY 10 Budgeted	26,756		478	34,049	78.6%
FY 11 Budgeted	26,756		478	34,147	78.4%
Excludes Community Colleges					
FY10 & FY 11 Resident Student FTE budgeted same as the number budgeted for 2009 Biennium					

The executive budget would convert the one-time-only \$400,000 biennial appropriation authorized by the 2007 Legislature for Public Broadcasting System (PBS) satellite delivery in the 2011 biennium into a permanent, base appropriation.

The executive budget includes present law budget adjustments applied to other state agencies, including annualization of the 2009 biennium pay plan, inflation and fixed costs, and 4 percent vacancy savings applied to non-faculty positions. The executive budget also includes adjustments not routinely applied to other state agencies, including employee merit and market adjustments and faculty promotions and salary floors by campus, faculty termination costs, other operating cost inflationary increases, and zero-based personal services items.

LFD ISSUE

Executive Budget Includes Pay Plan Costs in Present Law Budget

The executive budget includes personal services costs that in previous biennia have been funded via the pay plan bill. For the 2011 biennium, the executive includes approximately \$1.6 million general fund for employee merit and market salary adjustments. In the 2009 biennium, the legislature included funding for merit and market adjustments in the pay plan bill. The legislature may wish to discuss whether these costs for the university system should be budgeted in the same manner as other state agencies for the 2011 biennium, or if including these costs in the general appropriations act as recommended by the executive is acceptable.

No College Affordability Plan Proposal for the 2011 Biennium

The executive budget does not include funding to continue the College Affordability Plan (CAP) into the 2011 biennium. In the 2009 biennium, the Governor and the Board of Regents agreed upon an overall present law expenditure budget for the university educational units and the executive proposed a sufficient level of funding for that present law budget that eliminated the need for resident tuition increases each year of the 2009 biennium. The key component of the CAP present law budget was that the state percent share of funding the present law adjustments and the executive pay plan was 84.7 percent (compared to approximately 39 percent in the 2007 biennium). This new level of 84.7 percent was the ratio of Montana resident students and Western Undergraduate Exchange (WUE) students to total students. The state share basis in the 2007 biennium was the portion of state funds to the total general operating budget.

The 2007 Legislature approved the executive proposal and the Board of Regents did not increase resident tuition rates at the Montana University System educational units in FY 2008 and FY 2009.

For the 2011 biennium, there is no CAP proposal and no agreement to keep resident tuition rates at the FY 2007 level. However, there were extensive negotiations between the executive and the Board of Regents to agree upon a present law expenditure budget for the educational units and the research/public service agencies in the 2011 biennium for proposal to the 2009 Legislature. The present law expenditure budget agreed upon between the executive and the regents totals \$816.8 million current unrestricted funds in the 2011 biennium, a \$39.0 million or 5.0 percent increase from the 2009 biennium.

How the Executive Proposes to Fund the Present Law Expenditure Budget in the 2011 Biennium

The executive budget funds the proposed present law budget increase in two steps (see DP 902 and DP 903) because the executive funds a portion of the present law budget increase, from FY 2008 to FY 2009, at the state percent share authorized by the 2007 Legislature and the remaining portion, from FY 2009 to FY 2011, at the state percent share used in previous biennia.

The first step (DP 902), which adds the state share of present law cost increases from FY 2008 to FY 2009, continues the CAP funding policy recommended by the Governor for the 2009 biennium of funding present law adjustments on the basis of Montana resident students served to total students served. The state share percentage used in the first step is 84.7 percent.

The second step (DP 903), which adds the state share of present law cost increases from FY 2009 through FY 2011, uses the historical policy of funding present law adjustments on the basis of the proportion of the current unrestricted fund for the university educational units in the base year that is funded by state funds. The state share percentage used in this second step is 42 percent.

Overall, combining both steps, the executive budget funds the proposed 2011 biennium present law adjustments with 60.8 percent state funds.

Impact of the Proposed Executive Budget

As just noted, the executive budget funds the proposed 2011 biennium present law adjustments with 60.8 percent state funds (combining DP 902 and DP 903). The amount of present law adjustment expenditures that remain after the state share is funded is a budget "gap", and totals \$22.5 million. Most of this "gap", \$21.9 million, relates to the educational units.

The regents would have three primary choices to address the budget “gap” at the educational units: increase tuition, reduce expenditures, or a combination of both. If the budget “gap” was addressed entirely through tuition rate increases from the FY 2009 level, on a system wide basis, tuition rates for resident and nonresident students would increase approximately 3.0 percent each year of the 2011 biennium. If the budget “gap” was addressed entirely through expenditure reductions, it is possible that service reductions would be necessary.

Figure 1 illustrates the recent resident tuition and fee increases for 4 year, 2 year, and community colleges in Montana. The increase between FY 2007 and FY 2008 for the 4-year and 2-year tuition rates is attributable to mandatory fee increases. Tuition rates did not increase at the 4-year and 2-year units. However, both tuition and mandatory fees increased at community colleges between FY 2007 and FY 2008. The community colleges were not part of the CAP program in the 2009 biennium.

Figure 1
Montana University System

**Mandatory Tuition and Fee Rates for the
Educational Units and Community Colleges -
Montana Resident Students (1998 - 2008)**

Fiscal Year	Four-Year Campuses	Two-Year Campuses	Community Colleges
1998	\$2,629	\$2,049	\$1,423
1999	2,834	2,228	1,473
2000	2,952	2,274	1,605
2001	3,062	2,288	1,619
2002	3,428	2,522	1,797
2003	3,956	2,670	1,891
2004	4,124	2,710	2,122
2005	4,500	2,932	2,318
2006	4,942	3,036	2,502
2007	5,331	3,137	2,744
2008	5,404	3,181	3,079
Annual Growth Rate	7.5%	4.5%	8.0%
Total Growth 1998-2008	105.6%	55.2%	116.4%

Source: Montana University System, Inventory and Validation of Fees Report (1997-2007) 2008, OCHE [Units use weighted averages ...Community Colleges use averages]

LFD ISSUE

Evaluating College Affordability

The goal of promoting education affordability for Montana resident students was addressed in the 2009 biennium by the College Affordability Plan (CAP) that resulted in a resident tuition rate freeze for both years of the 2009 biennium. The executive budget does not continue the CAP into the 2011 biennium. One potential impact of discontinuing the CAP is that tuition rates will increase in the 2011 biennium. The legislature may want to monitor the measurable objectives identified in the Board of Regents 2008 Strategic Plan for this goal, including:

- o Specific tuition guidelines
- o State support as a percentage of total personal income
- o Tuition as a percentage of median household income

College affordability may be impacting current and prospective students in the Montana University System. Consider the following statistics from the Montana Board of Regents 2008 Strategic Plan:

- o 74 percent of 4-year freshmen return for the sophomore year, but only 41 percent graduate within 6 years
- o 77 percent of first-time students entering 4-year institutions and 79 percent of first-time students entering 2-year institutions receive financial aid compared to 72 percent and 62 percent, respectively, in other WICHE states
- o The average state funded need-based aid per student in Montana in 2006-07 was \$124 compared to the regional average of \$235
- o The average unmet need (cost of attendance less the expected family contribution and average aid award) of students receiving Pell grants in Montana in 2006-07 was \$10,197

Put in a simple way, college affordability is when the cost of attendance is less than or equal to the resources available to pay the price (cost of attendance). Tuition is a part of the “cost of attendance” calculation that colleges and universities make annually for financial aid decision purposes. The cost of attendance includes tuition and mandatory fees, books and supplies, room and board, and personal or transportation costs. In Montana, the tuition portion of the total cost of attendance for a resident undergraduate student ranged from 25 percent to 34 percent of the total cost of attendance in academic year 2005-06. Therefore, when tuition rates rise, the cost of attendance rises, and college affordability is impacted.

**LFD
ISSUE (CONT.)**

If the legislature is concerned about college affordability, it may want to consider mitigating tuition rate increases for Montana resident students. However, the legislature may want to consider other factors impacting college affordability as well as, or instead of, tuition.

Some examples of other factors impacting college affordability include, but are not limited to:

- o Academically prepared students entering the postsecondary system could reduce the need for remedial courses, thereby reducing the time to graduation for some students and possibly improving retention rates for other students
- o Reducing the length of time to graduation, for example from five years to four years, reduces the overall cost to the student/family by 20 percent
- o Completing college courses while still in high school (dual enrollment) reduces the overall cost of attendance by earning college credit prior to enrolling in a postsecondary institution
- o Increasing the amount of student financial aid or scholarships addresses the “resources available” side of the college affordability equation

The Montana Board of Regents 2008 Strategic Plan addresses these factors collectively in the first overarching goal of the plan, which is to increase the educational attainment of Montanans. The plan also describes strategic initiatives the MUS will undertake to achieve each goal and measurable objectives to evaluate progress toward each goal.

If the legislature is concerned about college affordability but is uncertain about the most effective way to invest limited resources, it may want to discuss these and other factors that affect college affordability with the Regents, the Commissioner of Higher Education, and MUS leadership to evaluate the current strategies used to improve affordability and identify the strategies that are most effective.

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Please refer to the agency narrative for a discussion of the identified significant goals for the 2011 biennium.

Funding

The following table shows program funding, by source, for the 2009 biennium adjusted base and the 2011 biennium as recommended by the Governor.

Program Funding Table Appropriation Distribution						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 147,491,080	89.1%	\$ 163,380,562	89.6%	\$ 164,634,644	89.4%
01100 General Fund	147,491,080	89.1%	163,380,562	89.6%	164,634,644	89.4%
02000 Total State Special Funds	18,055,161	10.9%	18,982,209	10.4%	19,482,209	10.6%
02289 Bureau Of Mines Groundwater	666,000	0.4%	666,000	0.4%	666,000	0.4%
02443 University Millage	17,065,323	10.3%	17,865,323	9.8%	18,365,323	10.0%
02576 Natural Resources Operations Ssr Fu	103,838	0.1%	175,886	0.1%	175,886	0.1%
02944 Motorcycle Safety Training	220,000	0.1%	275,000	0.2%	275,000	0.1%
Grand Total	<u>\$ 165,546,241</u>	<u>100.0%</u>	<u>\$ 182,362,771</u>	<u>100.0%</u>	<u>\$ 184,116,853</u>	<u>100.0%</u>

While funding for this program is primarily general fund, state special revenue from the six-mill property tax levy funds the university educational units, Resource Indemnity Trust funds (RIT) and oil and gas and metal mines taxes support research programs at the Montana Bureau of Mines, and program fees and an allocation from drivers license fees support the motorcycle safety program at MSU-Northern in Havre.

The figure below illustrates how the executive budget funds each component of the appropriation distribution program, including each campus of the university educational units, the research/public service agencies, and a number of line-item program initiatives.

Appropriation Distribution Program (09) -- 2011 Biennium Executive Budget Proposal

	Base FY 2008	Approp FY 2009	State Share		New		Executive		State Share		New		Executive		2011	
			Present Law FY 2010	Present Law FY 2010	Proposals FY 2010	Proposals FY 2010	Budget FY 2010	Budget FY 2010	Present Law FY 2011	Present Law FY 2011	Proposals FY 2011	Proposals FY 2011	Budget FY 2011	Budget FY 2011	2011 Biennium Total	2011 Biennium % Change
Educational Units																
UM - Missoula	\$45,186,426	\$48,451,144	\$4,708,098	\$4,708,098			\$49,894,524	\$49,894,524	\$5,165,270	\$5,165,270			\$50,351,696	\$50,351,696	\$100,246,220	7.06%
MSU - Bozeman	44,863,936	48,501,592	5,063,026	5,063,026			49,926,962	49,926,962	5,698,628	5,698,628			50,562,564	50,562,564	100,489,526	7.63%
UM - MT Tech	11,529,160	12,504,082	1,410,248	1,410,248			12,939,408	12,939,408	1,596,666	1,596,666			13,125,826	13,125,826	26,065,234	8.45%
MSU - Billings	18,016,449	19,313,937	1,811,897	1,811,897			19,828,346	19,828,346	1,962,604	1,962,604			19,979,053	19,979,053	39,807,399	6.64%
MSU - Northern	7,872,772	8,467,961	609,235	609,235			8,482,007	8,482,007	612,529	612,529			8,485,301	8,485,301	16,967,308	3.83%
UM - Western	6,170,885	6,518,909	392,663	392,663			6,563,548	6,563,548	429,700	429,700			6,600,585	6,600,585	13,164,133	3.74%
Great Falls COT	4,846,776	5,335,265	992,747	992,747			5,839,523	5,839,523	1,047,100	1,047,100			5,893,876	5,893,876	11,733,399	15.24%
Helena COT	3,548,527	3,776,721	417,842	417,842			3,966,369	3,966,369	448,418	448,418			3,996,945	3,996,945	7,963,314	8.71%
Dental Hygiene Program (GFCOT)	235,000	235,000					235,000	235,000					235,000	235,000	470,000	0.00%
Science and Water (MSU-N)	240,000	240,000					240,000	240,000					240,000	240,000	480,000	0.00%
PBS Satellite Delivery (MSU)	-	-	-	-	200,000	200,000	200,000	200,000	-	-	200,000	200,000	200,000	200,000	400,000	0.00%
Family Practice Residency (MSU)	319,366	319,366					319,366	319,366					319,366	319,366	638,732	0.00%
Yellow Bay Biological Institute (UM)	125,000	125,000					125,000	125,000					125,000	125,000	250,000	0.00%
Motorcycle Safety Program (MSU-N)	220,000	220,000	55,000	55,000	-	-	275,000	275,000	55,000	55,000			275,000	275,000	550,000	25.00%
Subtotal	\$143,174,297	\$154,008,977	\$15,460,756	\$15,460,756	\$200,000	\$200,000	\$158,835,053	\$158,835,053	\$17,015,915	\$17,015,915	\$200,000	\$200,000	\$160,390,212	\$160,390,212	\$319,225,265	7.42%
Research/Public Service Agencies																
Ag Experiment Station	\$12,102,217	\$12,521,657	\$419,440	\$419,440			\$12,521,657	\$12,521,657	\$520,660	\$520,660			\$12,622,877	\$12,622,877	\$25,144,534	2.11%
Extension Services	5,725,432	5,932,434	386,391	386,391			\$6,111,823	\$6,111,823	445,894	445,894			6,171,326	6,171,326	12,283,149	5.36%
Forest and Conservation ES	1,124,312	1,165,732	41,420	41,420			\$1,165,732	\$1,165,732	41,420	41,420			1,165,732	1,165,732	2,331,464	1.81%
Bureau of Mines	2,644,107	2,840,638	260,724	260,724			2,904,831	2,904,831	295,626	295,626			2,939,733	2,939,733	5,844,564	6.56%
Fire Service Training School	775,876	759,634	47,799	47,799			\$823,675	\$823,675	51,097	51,097			826,973	826,973	1,650,648	7.50%
Subtotal	\$22,371,944	\$23,220,095	\$1,155,774	\$1,155,774	\$0	\$0	\$23,527,718	\$23,527,718	\$1,354,697	\$1,354,697	\$0	\$0	\$23,726,641	\$23,726,641	\$47,254,359	3.65%
Grand Total Program 09	\$165,546,241	\$177,229,072	\$16,616,530	\$16,616,530	\$200,000	\$200,000	\$182,362,771	\$182,362,771	\$18,370,612	\$18,370,612	\$200,000	\$200,000	\$184,116,853	\$184,116,853	\$366,479,624	6.92%

Source: SAHBRS data for Base Year Expenditures and the Executive 2011 Biennium Budget

Six-Mill Property Tax Levy

The executive budget projects that the six-mill levy revenue account will decrease from \$34.3 million in the 2009 biennium to \$34.2 million in the 2011 biennium. This property tax levy is authorized at 15-10-107, MCA, and 20-25-423, MCA.

**LFD
ISSUE****Revenue and Transportation Committee Six-Mill Levy Revenue Estimates Exceed Executive Budget**

Taking into account the ending fund balance and the revenue projections for the six-mill levy account, Revenue and Transportation Committee estimates for the available six-mill levy revenue during the 2011 biennium exceed the executive budget proposal as follows:

- o \$858,064 additional six-mill revenue in FY 2010
- o \$209,118 additional six-mill revenue in FY 2011

Legislative Options

The legislature could appropriate some or all of this additional revenue. Options would include:

- o Option One – Appropriate six-mill levy revenue to replace general fund, such that the total university system funding level would remain the same, as an equal amount of general fund would be replaced by six-mill levy revenue
- o Option Two – Appropriate six-mill levy revenue as additional funding
- o Option Three – Do not appropriate any additional six-mill levy revenue, but leave this for an ending fund balance at the close of the 2011 biennium

If revenue projections for the six-mill levy funding are not met such that the appropriation would exceed the available revenue, the university system would not receive funding for the amount that was not met.

It should be noted that the six-mill levy revenue is restricted by law for appropriation to the university educational units and may not be appropriated for any other use.

Natural Resource Operations State Special Revenue Account

The 2007 Legislature created the natural resource operations state special revenue account and allocated revenues from the Resource Indemnity Trust Fund, metal mines license tax proceeds, and oil and natural gas production taxes to the account. Appropriations were authorized by the 2007 Legislature from this account for the Department of Natural Resources and Conservation (DNRC), the Montana Bureau of Mines, and other non-DNRC agencies. This account is authorized at 15-38-301, MCA.

The natural resource operations state special revenue is used at the Montana Bureau of Mines for general program support. The 2007 Legislature authorized this funding to support present law personal services cost increases and operational support in the 2009 biennium.

**LFD
ISSUE****Natural Resource Operations Account is Over-Allocated in the Executive Budget**

For the 2011 biennium, the executive budget expenditure recommendations, including an estimate of pay plan costs, exceeds the projected revenue available in this account by the end of the biennium. The legislature may wish to reduce expenditures in all related program budgets proportionately or selectively reduce program expenditures to balance the projected revenues with approved expenditures. The joint appropriation subcommittees on education and natural resources may wish to consult before making a final appropriation decision on this state special revenue account.

Natural Resources Operations State Special Revenue Executive Budget Request				
Fund Analysis FY 2008 - FY 2011				
Item	Actual FY 2008	Appropriated FY 2009	Executive Budget	
			FY 2010	FY 2011
Beginning Balance	\$4,536,375	\$4,178,494	\$2,659,729	\$1,112,900
Revenues	<u>4,407,536</u>	<u>3,806,068</u>	<u>2,967,412</u>	<u>3,411,553</u>
Total Funds Available	<u>\$8,943,911</u>	<u>\$7,984,562</u>	<u>\$5,627,141</u>	<u>\$4,524,453</u>
<u>Non-DNRC Expenditures</u>				
Water Court	\$905,805	\$951,711	\$1,047,422	\$1,053,147
Mt Bureau of Mines & Geology	103,838	175,886	175,886	175,886
State Library Commission	251,401	251,436	0	0
Department of Environmental Quality	<u>1,662,001</u>	<u>1,776,798</u>	<u>2,140,571</u>	<u>2,148,429</u>
Subtotal Non-DNRC Expenditures	\$2,923,045	\$3,155,831	\$3,363,879	\$3,377,462
<u>DNRC Expenditures</u>				
Centralized Services Division	\$203,934	\$440,247	\$0	\$0
Conservation & Resource Development Division	1,328,062	1,400,871	713,896	686,491
Water Resources Division	210,376	227,884	228,221	228,423
Forestry Division	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Subtotal DNRC Expenditures	\$1,842,372	\$2,169,002	\$1,042,117	\$1,014,914
Potential Pay Plan Impact in 2011 Biennium	\$0	\$0	\$108,245	\$216,489
Total Expenditures	<u>\$4,765,417</u>	<u>\$5,324,833</u>	<u>\$4,514,241</u>	<u>\$4,608,865</u>
Ending Fund Balance	<u>\$4,178,494</u>	<u>\$2,659,729</u>	<u>\$1,112,900</u>	<u>(\$84,412)</u>

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	147,491,080	147,491,080	294,982,160	89.93%	165,546,241	165,546,241	331,092,482	90.34%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	15,689,482	16,943,564	32,633,046	9.95%	16,616,530	18,370,612	34,987,142	9.55%
New Proposals	200,000	200,000	400,000	0.12%	200,000	200,000	400,000	0.11%
Total Budget	\$163,380,562	\$164,634,644	\$328,015,206		\$182,362,771	\$184,116,853	\$366,479,624	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 902 - Adjust Funding to the 2009 Level of State Support	0.00	11,624,835	72,048	0	11,696,883	0.00	11,624,835	72,048	0	11,696,883
DP 903 - Fund Present Law to 2011 Biennium Level	0.00	4,864,647	0	0	4,864,647	0.00	6,618,729	0	0	6,618,729
DP 930 - General Fund Replacement with Six Mill Levy Funds	0.00	(800,000)	800,000	0	0	0.00	(1,300,000)	1,300,000	0	0
DP 9015 - Motorcycle Safety (Northern)	0.00	0	55,000	0	55,000	0.00	0	55,000	0	55,000
Total Other Present Law Adjustments	0.00	\$15,689,482	\$927,048	\$0	\$16,616,530	0.00	\$16,943,564	\$1,427,048	\$0	\$18,370,612
Grand Total All Present Law Adjustments					\$16,616,530					\$18,370,612

Program Personal Services Narrative

No personal services are appropriated in this program.

The present law adjustments and new proposals contained in the executive budget for the educational units and public service and research agencies are summarized here. Specific information relating to present law adjustments and new proposals contained in the executive budget are discussed in this narrative at the subprogram level that follows.

DP 902 - Adjust Funding to the 2009 Level of State Support - The executive budget adjusts the base level of funding to the 2009 level of state support as the first step in funding educational units and the agencies. This increase includes such items as annualization of the 2009 pay-plan, faculty and staff merit and promotion increases, new space, IT fixed costs and operating costs.

DP 903 - Fund Present Law to 2011 Biennium Level - The executive budget would add present law funding of state support at the percentage funding in the base year to fund the educational units and the agencies. The percentage funding was taken from the total ongoing state share in FY 2008 and excluded statutory appropriations.

DP 930 - General Fund Replacement with Six Mill Levy Funds - The executive budget would replace general fund with six-mill levy state special revenue at the level anticipated to be available net of anticipated reappraisal mitigation.

DP 9015 - Motorcycle Safety (Northern) - The executive budget would add \$55,000 per year for the Montana motorcycle safety program for replacement of older motorcycles, maintenance on existing motorcycles, increased marketing expenses, and increased operating expenses. The program is funded from fees collected by the Department of Justice at the time motorcycles are registered and fees charged to program participants.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				Fiscal 2011				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 920 - PBS Restore One-Time Funding to be Ongoing										
09	0.00	200,000	0	0	200,000	0.00	200,000	0	0	200,000
Total	0.00	\$200,000	\$0	\$0	\$200,000	0.00	\$200,000	\$0	\$0	\$200,000

DP 920 - PBS Restore One-Time Funding to be Ongoing - The executive budget would restore the one-time-only \$400,000 general fund biennial appropriation approved by the 2007 Legislature for the Public Broadcast System (PBS) satellite delivery and make the appropriation part of the ongoing base.

Sub-Program Details

EDUCATIONAL UNITS -SP 01

Sub-Program Proposed Budget

The following table summarizes the total legislative budget for the agency by year, type of expenditure, and source of funding.

Sub-Program Budget Comparison	Base FY 2008	Approp. FY 2009	Exec Budget FY 2010	Exec Budget FY 2011	Biennium 2008-09	Biennium 2010-11	Biennium Change	Biennium % Change
Transfers	\$142,509,931	\$153,344,611	\$158,115,687	\$159,670,846	\$295,854,542	\$317,786,533	\$21,931,991	7.41%
Total Costs	\$142,509,931	\$153,344,611	\$158,115,687	\$159,670,846	\$295,854,542	\$317,786,533	\$21,931,991	7.41%
General Fund	\$125,444,608	\$137,475,175	\$140,213,882	\$141,145,227	\$262,919,783	\$281,359,109	\$18,439,326	7.01%
State/Other Special	17,065,323	15,869,436	17,901,805	18,525,619	32,934,759	36,427,424	3,492,665	10.60%
Total Funds	\$142,509,931	\$153,344,611	\$158,115,687	\$159,670,846	\$295,854,542	\$317,786,533	\$21,931,991	7.41%

Sub-Program Description

Sub-program 01 includes the state appropriation for the university educational units and the colleges of technology (Montana State University campuses and University of Montana campuses).

Budget Summary By Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent Of Budget
Base Budget	125,444,608	125,444,608	250,889,216	89.11%	142,509,931	142,509,931	285,019,862	89.69%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	14,605,756	15,660,915	30,266,671	10.75%	15,405,756	16,960,915	32,366,671	10.19%
New Proposals	200,000	200,000	400,000	0.14%	200,000	200,000	400,000	0.13%
Total Budget	\$140,250,364	\$141,305,523	\$281,555,887		\$158,115,687	\$159,670,846	\$317,786,533	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2010						Fiscal 2011				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 902 - Adjust Funding to the 2009 Level of State Support										
0.00	10,848,731	0		0	10,848,731	0.00	10,848,731	0	0	10,848,731
DP 903 - Fund Present Law to 2011 Biennium Level										
0.00	4,557,025	0		0	4,557,025	0.00	6,112,184	0	0	6,112,184
DP 930 - General Fund Replacement with Six Mill Levy Funds										
0.00	(800,000)	800,000		0	0	0.00	(1,300,000)	1,300,000	0	0
Total Other Present Law Adjustments										
0.00	\$14,605,756	\$800,000		\$0	\$15,405,756	0.00	\$15,660,915	\$1,300,000	\$0	\$16,960,915
Grand Total All Present Law Adjustments										
					\$15,405,756					\$16,960,915

DP 902 - Adjust Funding to the 2009 Level of State Support - The executive budget adjusts the base level of funding to the 2009 level of state support as the first step in funding educational units and the agencies. This increase includes such items as annualization of the 2009 pay-plan, faculty and staff merit and promotion increases, new space, IT fixed costs and operating costs.

DP 903 - Fund Present Law to 2011 Biennium Level - The executive budget would add present law funding of state support at the percentage funding in the base year to fund the educational units and the agencies. The percentage funding was taken from the total ongoing state share in FY 2008 and excluded statutory appropriations.

LFD COMMENT

The percentage funding for the educational units used in the executive budget for this decision package averaged 40.3 percent.

DP 930 - General Fund Replacement with Six Mill Levy Funds - The executive budget would replace general fund with six-mill levy state special revenue at the level anticipated to be available net of anticipated reappraisal mitigation.

New Proposals

New Proposals										
Sub Program	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 920 - PBS Restore One-Time Funding to be Ongoing										
01	0.00	200,000	0	0	200,000	0.00	200,000	0	0	200,000
Total	0.00	\$200,000	\$0	\$0	\$200,000	0.00	\$200,000	\$0	\$0	\$200,000

DP 920 - PBS Restore One-Time Funding to be Ongoing - The executive budget would restore the one-time-only \$400,000 general fund biennial appropriation approved by the 2007 Legislature for the Public Broadcast System (PBS) satellite delivery and make the appropriation part of the ongoing base.

Sub-Program Details

AES TRANSFERS - SP 09

Sub-Program Proposed Budget

The following table summarizes the total legislative budget for the agency by year, type of expenditure, and source of funding.

Sub-Program Budget Comparison	Base FY 2008	Approp. FY 2009	Exec Budget FY 2010	Exec Budget FY 2011	Biennium 2008-09	Biennium 2010-11	Biennium Change	Biennium % Change
Transfers	\$12,102,217	\$12,521,657	\$12,521,657	\$12,622,877	\$24,623,874	\$25,144,534	\$520,660	2.11%
Total Costs	\$12,102,217	\$12,521,657	\$12,521,657	\$12,622,877	\$24,623,874	\$25,144,534	\$520,660	2.11%
General Fund	\$12,102,217	\$12,521,657	\$12,521,657	\$12,622,877	\$24,623,874	\$25,144,534	\$520,660	2.11%
State/Other Special	0	0	0	0	0	0	0	
Total Fuods	\$12,102,217	\$12,521,657	\$12,521,657	\$12,622,877	\$24,623,874	\$25,144,534	\$520,660	2.11%

Sub-Program Description

The Agriculture Experiment Station (AES) was established at Montana State University in Bozeman by the Montana legislature in 1893 under Hatch Act authorization enacted by the United States Congress. The station is the agricultural research component of the land-grant university's three-part mission of teaching, research and service. AES also has a cooperative program at the Fort Keogh Livestock and Range Research Laboratory in Miles City, where livestock production efficiency and rangeland resource research is conducted.

Budget Summary By Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent Of Budget
Base Budget	12,102,217	12,102,217	24,204,434	96.26%	12,102,217	12,102,217	24,204,434	96.26%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	419,440	520,660	940,100	3.74%	419,440	520,660	940,100	3.74%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$12,521,657	\$12,622,877	\$25,144,534		\$12,521,657	\$12,622,877	\$25,144,534	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments											
-----Fiscal 2010-----						-----Fiscal 2011-----					
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds	
DP 902 - Adjust Funding to the 2009 Level of State Support											
	0.00	419,440	0	0	419,440		0.00	419,440	0	0	419,440
DP 903 - Fund Present Law to 2011 Biennium Level											
	0.00	0	0	0	0		0.00	101,220	0	0	101,220
Total Other Present Law Adjustments											
	0.00	\$419,440	\$0	\$0	\$419,440		0.00	\$520,660	\$0	\$0	\$520,660
Grand Total All Present Law Adjustments					\$419,440						\$520,660

DP 902 - Adjust Funding to the 2009 Level of State Support - The executive budget adjusts the base level of funding to the 2009 level of state support as the first step in funding educational units and the agencies. This increase includes such items as annualization of the 2009 pay-plan, faculty and staff merit and promotion increases, new space, IT fixed costs and operating costs.

DP 903 - Fund Present Law to 2011 Biennium Level - The executive budget would add present law funding of state support at the percentage funding in the base year to fund the educational units and the agencies. The percentage funding was taken from the total ongoing state share in FY 2008 and excluded statutory appropriations.

**LFD
COMMENT**

The state percent share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the FY 2008 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.

The state percent share for the Agriculture Experiment Station in the 2011 biennium budget is calculated at 84.1 percent.

Sub-Program Details

EXTENSION SERVICE TRF - SP 10

Sub-Program Proposed Budget

The following table summarizes the total legislative budget for the agency by year, type of expenditure, and source of funding.

Sub-Program Budget Comparison	Base FY 2008	Approp. FY 2009	Exec Budget FY 2010	Exec Budget FY 2011	Biennium 2008-09	Biennium 2010-11	Biennium Change	Biennium % Change
Transfers	\$5,725,432	\$5,932,434	\$6,111,823	\$6,171,326	\$11,657,866	\$12,283,149	\$625,283	5.36%
Total Costs	\$5,725,432	\$5,932,434	\$6,111,823	\$6,171,326	\$11,657,866	\$12,283,149	\$625,283	5.36%
General Fund	\$5,725,432	\$5,932,434	\$6,111,823	\$6,171,326	\$11,657,866	\$12,283,149	\$625,283	5.36%
State/Other Special	0	0	0	0	0	0	0	
Total Fuods	\$5,725,432	\$5,932,434	\$6,111,823	\$6,171,326	\$11,657,866	\$12,283,149	\$625,283	5.36%

Sub-Program Description

The Extension Service (ES) was established in 1914 as a result of the federal Smith-Lever Act. The Extension Service mission is to disseminate and encourage practical use of research about agricultural production and marketing, family and consumer science, and human resource development. The central office is housed on the MSU-Bozeman campus, but there are 52 county extension offices that serve 55 of Montana's 56 counties.

Budget Summary By Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent Of Budget
Base Budget	5,725,432	5,725,432	11,450,864	93.22%	5,725,432	5,725,432	11,450,864	93.22%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	386,391	445,894	832,285	6.78%	386,391	445,894	832,285	6.78%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$6,111,823	\$6,171,326	\$12,283,149		\$6,111,823	\$6,171,326	\$12,283,149	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments											
-----Fiscal 2010-----						-----Fiscal 2011-----					
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds	
DP 902 - Adjust Funding to the 2009 Level of State Support											
	0.00	207,002	0	0	207,002		0.00	207,002	0	0	207,002
DP 903 - Fund Present Law to 2011 Biennium Level											
	0.00	179,389	0	0	179,389		0.00	238,892	0	0	238,892
Total Other Present Law Adjustments											
	0.00	\$386,391	\$0	\$0	\$386,391		0.00	\$445,894	\$0	\$0	\$445,894
Grand Total All Present Law Adjustments					\$386,391						\$445,894

DP 902 - Adjust Funding to the 2009 Level of State Support - The executive budget adjusts the base level of funding to the 2009 level of state support as the first step in funding educational units and the agencies. This increase includes such items as annualization of the 2009 pay-plan, faculty and staff merit and promotion increases, new space, IT fixed costs and operating costs.

DP 903 - Fund Present Law to 2011 Biennium Level - The executive budget would add present law funding of state support at the percentage funding in the base year to fund the educational units and the agencies. The percentage funding was taken from the total ongoing state share in FY 2008 and excluded statutory appropriations.

**LFD
COMMENT**

The state percent share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the FY 2008 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.

The state percent share for the Extension Service in the 2011 biennium budget is calculated at 68.6 percent.

Sub-Program Details**FCES TRANSFER - SP 11****Sub-Program Proposed Budget**

The following table summarizes the total legislative budget for the agency by year, type of expenditure, and source of funding.

Sub-Program Budget Comparison	Base FY 2008	Approp. FY 2009	Exec Budget FY 2010	Exec Budget FY 2011	Biennium 2008-09	Biennium 2010-11	Biennium Change	Biennium % Change
Transfers	\$1,124,312	\$1,165,732	\$1,165,732	\$1,165,732	\$2,290,044	\$2,331,464	\$41,420	1.81%
Total Costs	\$1,124,312	\$1,165,732	\$1,165,732	\$1,165,732	\$2,290,044	\$2,331,464	\$41,420	1.81%
General Fund	\$1,124,312	\$1,165,732	\$1,165,732	\$1,165,732	\$2,290,044	\$2,331,464	\$41,420	1.81%
State/Other Special	0	0	0	0	0	0	0	
Total Funds	\$1,124,312	\$1,165,732	\$1,165,732	\$1,165,732	\$2,290,044	\$2,331,464	\$41,420	1.81%

Sub-Program Description

The Forestry and Conservation Experiment Station was established by the legislature in 1937, codified at 20-25-241, MCA, for the scientific investigation of natural resource problems including forestland resources, timber, and relationships between forests and water, pasturage, and recreation. The station is directed by the Dean of the School of Forestry that serves as the research unit of the University of Montana School of Forestry in Missoula.

Budget Summary By Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent Of Budget
Base Budget	1,124,312	1,124,312	2,248,624	96.45%	1,124,312	1,124,312	2,248,624	96.45%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	41,420	41,420	82,840	3.55%	41,420	41,420	82,840	3.55%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$1,165,732	\$1,165,732	\$2,331,464		\$1,165,732	\$1,165,732	\$2,331,464	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----						-----Fiscal 2011-----				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 902 - Adjust Funding to the 2009 Level of State Support	0.00	41,420	0	0	41,420	0.00	41,420	0	0	41,420
Total Other Present Law Adjustments	0.00	\$41,420	\$0	\$0	\$41,420	0.00	\$41,420	\$0	\$0	\$41,420
Grand Total All Present Law Adjustments					\$41,420					\$41,420

DP 902 - Adjust Funding to the 2009 Level of State Support - The executive budget adjusts the base level of funding to the 2009 level of state support as the first step in funding educational units and the agencies. This increase includes such items as annualization of the 2009 pay-plan, faculty and staff merit and promotion increases, new space, IT fixed costs and operating costs.

**LFD
COMMENT**

The state percent share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the FY2008 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.

The state percent share for the Forestry and Conservation Experiment Station in the 2011 biennium budget is calculated at 99.7 percent.

Sub-Program Details

BUREAU TRANSFERS - SP 12

Sub-Program Proposed Budget

The following table summarizes the total legislative budget for the agency by year, type of expenditure, and source of funding.

Sub-Program Budget Comparison	Base FY 2008	Approp. FY 2009	Exec Budget FY 2010	Exec Budget FY 2011	Biennium 2008-09	Biennium 2010-11	Biennium Change	Biennium % Change
Transfers	\$2,644,107	\$2,840,639	\$2,904,831	\$2,939,733	\$5,484,746	\$5,844,564	\$359,818	6.56%
Total Costs	\$2,644,107	\$2,840,639	\$2,904,831	\$2,939,733	\$5,484,746	\$5,844,564	\$359,818	6.56%
General Fund	\$1,874,269	\$1,998,753	\$2,062,945	\$2,097,847	\$3,873,022	\$4,160,792	\$287,770	7.43%
State/Other Special	769,838	841,886	841,886	841,886	1,611,724	1,683,772	72,048	4.47%
Total Funds	\$2,644,107	\$2,840,639	\$2,904,831	\$2,939,733	\$5,484,746	\$5,844,564	\$359,818	6.56%

Sub-Program Description

The Bureau of Mines and Geology (Bureau) is a public service and research agency located at Montana Tech in Butte. The Bureau disseminates information through publications and conducts field and laboratory studies on all mineral resources, metallic and nonmetallic minerals, fuels, and groundwater.

The groundwater assessment programs at the bureau are funded at 15-38-202, MCA, by the Resource Indemnity Trust Fund, which was created, in part, for the purpose of supporting ground water assessment programs specific to areas that may experience environmental damage caused by mineral extraction.

Budget Summary By Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent Of Budget
Base Budget	1,874,269	1,874,269	3,748,538	90.09%	2,644,107	2,644,107	5,288,214	90.48%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	188,676	223,578	412,254	9.91%	260,724	295,626	556,350	9.52%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$2,062,945	\$2,097,847	\$4,160,792		\$2,904,831	\$2,939,733	\$5,844,564	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments

	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 902 - Adjust Funding to the 2009 Level of State Support										
	0.00	124,484	72,048		0 196,532	0.00	124,484	72,048	0	196,532
DP 903 - Fund Present Law to 2011 Biennium Level										
	0.00	64,192		0	0 64,192	0.00	99,094		0	99,094
Total Other Present Law Adjustments	0.00	\$188,676	\$72,048	\$0	\$260,724	0.00	\$223,578	\$72,048	\$0	\$295,626
Grand Total All Present Law Adjustments					\$260,724					\$295,626

DP 902 - Adjust Funding to the 2009 Level of State Support - The executive budget adjusts the base level of funding to the 2009 level of state support as the first step in funding educational units and the agencies. This increase includes such items as annualization of the 2009 pay-plan, faculty and staff merit and promotion increases, new space, IT fixed costs and operating costs.

DP 903 - Fund Present Law to 2011 Biennium Level - The executive budget would add present law funding of state support at the percentage funding in the base year to fund the educational units and the agencies. The percentage funding was taken from the total ongoing state share in FY 2008 and excluded statutory appropriations.

**LFD
COMMENT**

The state percent share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the FY 2008 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.

The state percent share for the Bureau in the 2011 biennium budget is calculated at 96.8 percent.

Sub-Program Details**FSTS TRANSFERS - SP 19****Sub-Program Proposed Budget**

The following table summarizes the total legislative budget for the agency by year, type of expenditure, and source of funding.

Sub-Program Budget Comparison	Base FY 2008	Approp. FY 2009	Exec Budget FY 2010	Exec Budget FY 2011	Biennium 2008-09	Biennium 2010-11	Biennium Change	Biennium % Change
Transfers	\$775,876	\$759,634	\$823,675	\$826,973	\$1,535,510	\$1,650,648	\$115,138	7.50%
Total Costs	\$775,876	\$759,634	\$823,675	\$826,973	\$1,535,510	\$1,650,648	\$115,138	7.50%
General Fund	\$775,876	\$759,634	\$823,675	\$826,973	\$1,535,510	\$1,650,648	\$115,138	7.50%
State/Other Special	0	0	0	0	0	0	0	
Total Funds	\$775,876	\$759,634	\$823,675	\$826,973	\$1,535,510	\$1,650,648	\$115,138	7.50%

Sub-Program Description

The Fire Services Training School (FSTS), located at the MSU College of Technology in Great Falls and authorized at 20-31-102, MCA, works to organize, supervise, and coordinate training and education for state fire services personnel across Montana in accordance with local needs and the standards established by the Board of Regents.

Budget Summary By Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent Of Budget
Base Budget	775,876	775,876	1,551,752	94.01%	775,876	775,876	1,551,752	94.01%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	47,799	51,097	98,896	5.99%	47,799	51,097	98,896	5.99%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$823,675	\$826,973	\$1,650,648		\$823,675	\$826,973	\$1,650,648	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments											
Fiscal 2010						Fiscal 2011					
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds	
DP 902 - Adjust Funding to the 2009 Level of State Support											
	0.00	(16,242)	0	0	(16,242)	0.00	(16,242)		0	0	(16,242)
DP 903 - Fund Present Law to 2011 Biennium Level											
	0.00	64,041	0	0	64,041	0.00	67,339		0	0	67,339
Total Other Present Law Adjustments											
	0.00	\$47,799	\$0	\$0	\$47,799	0.00	\$51,097		\$0	\$0	\$51,097
Grand Total All Present Law Adjustments											
				\$47,799						\$51,097	

DP 902 - Adjust Funding to the 2009 Level of State Support - The executive budget adjusts the base level of funding to the 2009 level of state support as the first step in funding educational units and the agencies. This increase includes such items as annualization of the 2009 pay-plan, faculty and staff merit and promotion increases, new space, IT fixed costs and operating costs.

DP 903 - Fund Present Law to 2011 Biennium Level - The executive budget would add present law funding of state support at the percentage funding in the base year to fund the educational units and the agencies. The percentage funding was taken from the total ongoing state share in FY 2008 and excluded statutory appropriations.

LFD COMMENT

The state percent share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the FY 2008 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.

The state percent share for the FSTS in the 2011 biennium budget is calculated at 99.5 percent.

Sub-Program Details**MISCELLANEOUS SYSTEM TRANSFERS -SP 24****Sub-Program Proposed Budget**

The following table summarizes the total legislative budget for the agency by year, type of expenditure, and source of funding.

Sub-Program Budget Comparison	Base FY 2008	Approp. FY 2009	Exec Budget FY 2010	Exec Budget FY 2011	Biennium 2008-09	Biennium 2010-11	Biennium Change	Biennium % Change
Transfers	\$664,366	\$664,366	\$719,366	\$719,366	\$1,328,732	\$1,438,732	\$110,000	8.28%
Total Costs	\$664,366	\$664,366	\$719,366	\$719,366	\$1,328,732	\$1,438,732	\$110,000	8.28%
General Fund	\$444,366	\$444,366	\$444,366	\$444,366	\$888,732	\$888,732	\$0	0.00%
State/Other Special	<u>220,000</u>	<u>220,000</u>	<u>275,000</u>	<u>275,000</u>	<u>440,000</u>	<u>550,000</u>	<u>110,000</u>	<u>25.00%</u>
Total Funds	\$664,366	\$664,366	\$719,366	\$719,366	\$1,328,732	\$1,438,732	\$110,000	8.28%

Sub-Program Description

This subprogram includes state appropriations for special programs at the educational units that do not directly impact student tuition:

- o MSU rural residency -- \$319,366 general fund each year
- o Yellow Bay -- \$125,000 general fund each year
- o Motorcycle safety training -- \$275,000 state special revenue each year

Budget Summary By Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent Of Budget
Base Budget	444,366	444,366	888,732	100.00%	664,366	664,366	1,328,732	92.35%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	55,000	55,000	110,000	7.65%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$444,366	\$444,366	\$888,732		\$719,366	\$719,366	\$1,438,732	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2010					Fiscal 2011					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 9015 - Motorcycle Safety (Northern)										
0.00	0	55,000	0	55,000	0.00	0	55,000	0	55,000	
Total Other Present Law Adjustments										
0.00	\$0	\$55,000	\$0	\$55,000	0.00	\$0	\$55,000	\$0	\$55,000	
Grand Total All Present Law Adjustments				\$55,000					\$55,000	

DP 9015 - Motorcycle Safety (Northern) - The executive budget would add \$55,000 per year for the Montana motorcycle safety program for replacement of older motorcycles, maintenance on existing motorcycles, increased marketing expenses, and increased operating expenses. The program is funded from fees collected by the Department of Justice at the time motorcycles are registered and fees charged to program participants.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
Grants	450,002	450,000	911,402	911,402	900,002	1,822,804	922,802	102.53%
Total Costs	\$450,002	\$450,000	\$911,402	\$911,402	\$900,002	\$1,822,804	\$922,802	102.53%
General Fund	450,002	450,000	911,402	911,402	900,002	1,822,804	922,802	102.53%
Total Funds	\$450,002	\$450,000	\$911,402	\$911,402	\$900,002	\$1,822,804	\$922,802	102.53%

Program Description

The Tribal College Assistance program provides funding to support a portion of the costs of educating non-beneficiary Montana students (non-tribal members) attending the seven tribal community colleges on the reservations in Montana. Section 20-25-428, MCA requires the Board of Regents to provide assistance to tribal colleges "subject to a line item appropriation" by the legislature, up to a maximum of \$3,024 per year for each non-beneficiary student FTE. The statute does not establish a minimum appropriation level.

Tribal colleges are under federal jurisdiction to provide postsecondary education for tribal members but the colleges receive no federal funding assistance to support the costs of education for non-beneficiary students. Since student tuition rates typically do not cover the full cost of education, as the federal subsidy allows lower tuition rates, state funding to support non-beneficiary resident students is intended to keep tuition rates lower for these Montana students as well.

Program Highlights

Tribal College Assistance Major Budget Highlights	
♦	The executive recommends the one-time funding authorized by the 2007 Legislature become permanent, thus doubling the amount of base funding for non-beneficiary students in tribal colleges

Program Narrative

The Tribal College Assistance program was created by the 1995 Legislature in HB 544, a bill that appropriated \$1.4 million general fund to the Board of Regents for the 1997 biennium for distribution to the tribal colleges at a maximum rate of \$1,500 per Montana nonbeneficiary student. The program was codified into permanent statute by the 1997 Legislature in SB 84 with language that made the financial assistance to the tribal community colleges subject to a line item appropriation as well as continuing to limit the distribution per nonbeneficiary student to \$1,500 annually. The program's statutory language was amended again by HB 16 in the 2005 session by increasing the maximum distribution per nonbeneficiary student to \$3,024 annually.

Statute sets a maximum distribution rate but neither the seminal legislation nor statutory changes since then have included a minimum distribution rate. Therefore, the legislature is not obligated by statute to provide any funding for non-beneficiary students under the Tribal College Assistance program, as the funding level is solely a matter of public policy for legislative determination each biennium.

A recent history of the state funding for nonbeneficiary Montana students attending tribal community colleges is shown in the figure below. The projected reimbursement that would result from the proposed executive budget is also shown in

the figure. Legislative appropriations for nonbeneficiary assistance have increased substantially in recent years. In the 2009 biennium, the legislature made \$1.014 million of the \$1.9 million appropriation a one-time-only appropriation. As discussed below, the Governor recommends making this one-time-only appropriation an ongoing appropriation in the 2011 biennium. The executive budget would result in an approximate reimbursement rate of \$3,013 each year of the 2011 biennium, assuming the same number of nonbeneficiary Montana students in the 2011 biennium as the average of the last three years.

State Funding for Nonbeneficiary Montana Students Attending Tribal Community Colleges
FY 2006 through 2011

Item	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Budget	FY 2010 Executive Budget	FY 2011 Executive Budget
Number of nonbeneficiary Montana students*	298.11	307.87	301.39	302.46	302.46	302.46
One-time state funds distributed for nonbeneficiary students	80,183	419,817	461,401	552,599	0	0
On-going state funds distributed for nonbeneficiary students	<u>400,000</u>		<u>450,002</u>	<u>450,000</u>	<u>911,402</u>	<u>911,402</u>
Total State funds distributed for nonbeneficiary students	<u>\$480,183</u>	<u>\$419,817</u>	<u>\$911,403</u>	<u>\$1,002,599</u>	<u>\$911,402</u>	<u>\$911,402</u>
Average state funds distribution per nonbeneficiary Montana student**	\$1,611	\$1,364	\$3,024	\$3,315	\$3,013	\$3,013
<u>State funds appropriation per Montana resident student for:</u>						
Community Colleges	3,015	3,088	3,793	4,100	4,248	4,288
Montana University System	4,631	4,645	5,332	5,806	5,910	5,968

*FY 2009 - FY 2011 estimate based upon FY 2006 - FY 2009 average of 302.46

**Per Section 20-25-428, MCA, there is a maximum distribution of \$3,024 per nonbeneficiary student per year

The figure also compares the distribution per nonbeneficiary Montana student in this program to the average state funds distribution per Montana resident student for community colleges and the educational units of the Montana University System. As shown, the state funds per Montana student rate is highest for the Montana University System (\$5,968 in FY 2011), followed by community colleges (\$4,288 in FY 2011) and nonbeneficiary students at tribal colleges (\$3,013 in FY 2011).

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Please refer to the agency narrative for a discussion of the identified significant goals for the 2011 biennium.

Funding

The following table shows program funding, by source, for the 2009 biennium adjusted base and the 2011 biennium as recommended by the Governor. The executive budget increases 102.5 percent in the 2011 biennium as the Governor recommends the one-time funding authorized by the 2007 Legislature be made permanent.

Program Funding Table Tribal College Assistance Pgm						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 450,002	100.0%	\$ 911,402	100.0%	\$ 911,402	100.0%
01100 General Fund	<u>450,002</u>	<u>100.0%</u>	<u>911,402</u>	<u>100.0%</u>	<u>911,402</u>	<u>100.0%</u>
Grand Total	<u>\$ 450,002</u>	<u>100.0%</u>	<u>\$ 911,402</u>	<u>100.0%</u>	<u>\$ 911,402</u>	<u>100.0%</u>

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	450,002	450,002	900,004	49.37%	450,002	450,002	900,004	49.37%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	461,400	461,400	922,800	50.63%	461,400	461,400	922,800	50.63%
Total Budget	\$911,402	\$911,402	\$1,822,804		\$911,402	\$911,402	\$1,822,804	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Program Personal Services Narrative

No personal services are appropriated in this program.

New Proposals

New Proposals										
-----Fiscal 2010-----						-----Fiscal 2011-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1101 - Restore One-Time Funding to be Ongoing										
11	0.00	461,400	0	0	461,400	0.00	461,400	0	0	461,400
Total	0.00	\$461,400	\$0	\$0	\$461,400	0.00	\$461,400	\$0	\$0	\$461,400

DP 1101 - Restore One-Time Funding to be Ongoing - The executive budget would add \$922,800 general fund to restore the one-time funding approved by the 2007 Legislature and make the funding become ongoing in the 2011 biennium.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	55.20	55.20	55.20	55.20	55.20	55.20	0.00	0.00%
Personal Services	2,419,311	2,972,493	2,880,433	2,888,068	5,391,804	5,768,501	376,697	6.99%
Operating Expenses	3,937,765	7,044,371	9,161,526	10,088,202	10,982,136	19,249,728	8,267,592	75.28%
Equipment & Intangible Assets	22,343	7,655	22,343	22,343	29,998	44,686	14,688	48.96%
Benefits & Claims	25,034,673	59,399,808	32,073,189	35,908,489	84,434,481	67,981,678	(16,452,803)	(19.49%)
Transfers	0	73,200	0	0	73,200	0	(73,200)	(100.00%)
Total Costs	\$31,414,092	\$69,497,527	\$44,137,491	\$48,907,102	\$100,911,619	\$93,044,593	(\$7,867,026)	(7.80%)
General Fund	0	0	0	0	0	0	0	n/a
Federal Special	31,414,092	69,497,527	44,137,491	48,907,102	100,911,619	93,044,593	(7,867,026)	(7.80%)
Total Funds	\$31,414,092	\$69,497,527	\$44,137,491	\$48,907,102	\$100,911,619	\$93,044,593	(\$7,867,026)	(7.80%)

Program Description

The Montana Guaranteed Student Loan Program (MGSLP) operates under federal regulation with federal funds to guarantee student loans that are made by private lenders to higher education students in Montana. GSL purchases and services student loans that are in default, works with students to prevent default, collects the outstanding balance from the defaulted loans for repayment to the US Department of Education, and provides training and technical assistance to schools and lenders. In addition to servicing the loans, the MGSLP program also provides counseling and assistance programs to students in an effort to prevent loan defaults. The Montana Guaranteed Student Loan program is authorized under 20-26-11, MCA.

Starting in 1979, the Montana Board of Regents accepted responsibility to serve as the “guarantor” of the funds private lenders would loan to Montana students under the federal student loan program. Without a government entity serving as guarantor, there would be little incentive for private lenders to make student loans to young people who typically have a high-risk profile (based upon age, income status, length of employment, and their intention to be full-time students). Therefore, the Board of Regents created the Montana Guaranteed Student Loan Program and agreed that they would “guarantee” private loans by agreeing to purchase defaulted student loans from private lenders and take responsibility for collecting on these loans.

Program Highlights

Guaranteed Student Loan Program Major Budget Highlights	
♦	The executive budget reduces the biennial budget for this program a net \$7.9 million resulting primarily from: <ul style="list-style-type: none"> • \$8.3 million biennial increase in operating expenses for new loan servicing contract and other operating increases • \$16.4 million biennial decrease in claims payments to private lenders
♦	Recent changes in federal higher education legislation have impacted the operation and scope of this program

Program Narrative

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Please refer to the agency narrative for a discussion of the identified significant goals for the 2011 biennium.

Funding

The following table shows program funding, by source, for the 2009 biennium adjusted base and the 2011 biennium as recommended by the Governor. The executive budget would result in an overall 7.8 percent budget reduction, largely due to biennial operating expense increases of \$8.3 million being offset by biennial claims payment decreases of \$16.4 million. This program is funded primarily from federal funds from the U.S. Department of Education relating to the operation of the program.

Program Funding Table Guaranteed Student Loan Pgm						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
03000 Total Federal Special Funds	\$ 31,414,092.00	100.0%	\$ 44,137,491.00	100.0%	\$ 48,907,102.00	100.0%
03400 Guaranteed Std. Loan-Admin.	11,600,340	36.9%	19,495,196	44.2%	21,424,179	43.8%
03401 U.S. Dept Ed / Gsl Recall Acct	19,792,634	63.0%	24,621,179	55.8%	27,461,807	56.2%
03410 Gear Up Essay Scholarship	21,118	0.1%	21,116	0.0%	21,116	0.0%
Grand Total	\$ 31,414,092	100.0%	\$ 44,137,491	100.0%	\$ 48,907,102	100.0%

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	31,414,092	31,414,092	62,828,184	67.52%
Statewide PL Adjustments	0	0	0	0.00%	444,693	432,224	876,917	0.94%
Other PL Adjustments	0	0	0	0.00%	12,278,706	17,060,786	29,339,492	31.53%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$44,137,491	\$48,907,102	\$93,044,593	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2010					Fiscal 2011					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				581,137					589,096	
Vacancy Savings				(120,015)					(120,339)	
Inflation/Deflation				6,224					6,725	
Fixed Costs				(22,653)					(43,258)	
Total Statewide Present Law Adjustments				\$444,693					\$432,224	
DP 1201 - Loan Servicing Costs Increase										
0.00	0	0	5,240,190	5,240,190	0.00	0	0	6,186,970	6,186,970	
DP 1202 - Increased Collection Costs										
0.00	0	0	2,655,516	2,655,516	0.00	0	0	3,637,816	3,637,816	
DP 1203 - Increased Claims Payments										
0.00	0	0	4,383,000	4,383,000	0.00	0	0	7,236,000	7,236,000	
Total Other Present Law Adjustments										
0.00	\$0	\$0	\$12,278,706	\$12,278,706	0.00	\$0	\$0	\$17,060,786	\$17,060,786	
Grand Total All Present Law Adjustments				\$12,723,399					\$17,493,010	

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

Please refer to the agency narrative for a discussion of the Office of the Commissioner of Higher Education pay plan and personal services costs.

DP 1201 - Loan Servicing Costs Increase - The executive budget increases federal spending authority by \$11.4 million over the 2011 biennium for increased loan servicing costs. In FY 2009 Montana Guaranteed Student Loan Program (MGSLP) entered into a contract with Great Lakes Higher Education Corporation for student loan guarantee/processing system and data processing services. The contract pricing is based upon MGSLP's outstanding principal balance of loan under guarantee. The costs would be funded 100 percent from federal funds.

LFD COMMENT

The executive budget includes a clerical error. The biennial present law adjustment for the loan servicing cost increase is included in the executive budget at \$11.4 million while the actual anticipated biennial cost increase is \$1.1 million.

DP 1202 - Increased Collection Costs - The executive budget increases federal spending authority by \$6.3 million over the 2011 biennium in order to meet projected increases in collection costs that are expected to be driven by changes in the guarantor funding model set forth in the College Cost Reduction and Access Act of 2007 that requires higher repayment levels to the federal government by MGSLP, and by a projected increase in default claims paid and the amount of defaulted loan dollars collected.

DP 1203 - Increased Claims Payments - The executive budget increases federal spending authority by \$11.6 million over the 2011 biennium in order to meet projected increases in claim payments that would be made to private lenders in order to purchase defaulted student loans, as required by the program's role as "guarantor". The MGSLP outstanding guarantee portfolio growth is attributed to increased loan limits and increased borrowing.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
Personal Services	6,000	6,600	6,300	6,300	12,600	12,600	0	0.00%
Operating Expenses	40,478	25,525	42,594	45,067	66,003	87,661	21,658	32.81%
Local Assistance	0	0	0	0	0	0	0	n/a
Total Costs	\$46,478	\$32,125	\$48,894	\$51,367	\$78,603	\$100,261	\$21,658	27.55%
General Fund	46,478	32,125	48,894	51,367	78,603	100,261	21,658	27.55%
Total Funds	\$46,478	\$32,125	\$48,894	\$51,367	\$78,603	\$100,261	\$21,658	27.55%

Program Description

The Board of Regents program provides secretarial support, travel and per diem for the Board of Regents. The Board of Regents has full power, responsibility, and authority to supervise, coordinate, manage, and control the Montana University System under Article X, Section 9, Montana Constitution, and 20-25-301, MCA.

Program Highlights

Board of Regents Major Budget Highlights	
♦	The budget is entirely general funded
♦	The executive recommends a 28 percent biennial increase to budget higher travel costs incurred by the board in the base year
♦	Inflation allowed for regent mileage reimbursement

Program Narrative

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Please refer to the agency narrative for a discussion of the identified significant goals for the 2011 biennium.

Funding

The following table shows program funding, by source, for the 2009 biennium adjusted base and the 2011 biennium as recommended by the Governor. This program is funded entirely by state general fund.

Program Funding Table Board Of Regents-Admin						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 46,478	100.0%	\$ 48,894	100.0%	\$ 51,367	100.0%
01100 General Fund	46,478	100.0%	48,894	100.0%	51,367	100.0%
Grand Total	\$ 46,478	100.0%	\$ 48,894	100.0%	\$ 51,367	100.0%

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	General Fund				Total Funds			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	46,478	46,478	92,956	92.71%	46,478	46,478	92,956	92.71%
Statewide PL Adjustments	(5,925)	(5,882)	(11,807)	(11.78%)	(5,925)	(5,882)	(11,807)	(11.78%)
Other PL Adjustments	8,341	10,771	19,112	19.06%	8,341	10,771	19,112	19.06%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$48,894	\$51,367	\$100,261		\$48,894	\$51,367	\$100,261	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
FTE	Fiscal 2010				FTE	Fiscal 2011			
	General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
Personal Services				(6,000)					(6,000)
Inflation/Deflation				75					118
Total Statewide Present Law Adjustments				(\$5,925)					(\$5,882)
DP 1301 - Board of Regents Per Diem	0.00	6,300	0	6,300	0.00	6,300	0	0	6,300
DP 1302 - Board of Regents Mileage	0.00	2,041	0	2,041	0.00	4,471	0	0	4,471
Total Other Present Law Adjustments	0.00	\$8,341	\$0	\$8,341	0.00	\$10,771	\$0	\$0	\$10,771
Grand Total All Present Law Adjustments				\$2,416					\$4,889

Program Personal Services Narrative

No salaries are appropriated under this program. Only per diem is appropriated under the personal services category to reimburse members of the board of regents.

DP 1301 - Board of Regents Per Diem - The executive budget would restore the per diem expenditure that is zero-based in the budget process. The per diem is calculated based on 7 regents attending 6 meetings per year that run for 3 days at a rate of \$50 per day (7x6x3x\$50=\$6,300/year).

DP 1302 - Board of Regents Mileage - The executive budget adds an inflationary adjustment for car mileage reimbursement for board members. The state car mileage reimbursement rate increased 19 percent from FY 2007 to 2008. The executive budget includes an inflationary adjustment of 19 percent each year of the 2011 biennium for projected mileage reimbursement rate increases.

LONG-RANGE PLANNING

Section F

JOINT SUBCOMMITTEE OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

-----Agencies-----

Long-Range Building Program	Renewable Resource Grant & Loan Program
State Building Energy Conservation	Reclamation & Development Grant Program
Long-Range Information Technology Program	Cultural and Aesthetic Grant Program
Treasure State Endowment Program	Quality School Facilities Program
Tresure State Endowment Regional Water System Program	

-----Committee Members-----

House

Representative Dave Kasten (Chair)
Representative Dennis Getz
Representative Walter McNutt
Representative Jon Sesso

Senate

Senator Gregory Barkus (Vice Chair)
Senator John Brueggeman
Senator Mike Cooney
Senator Carol Williams

-----Fiscal Division Staff-----

Catherine Duncan

LONG-RANGE BUILDING PROGRAM

PROGRAM DESCRIPTION

In 1963, the legislature enacted the Long-Range Building Program (LRBP) to provide funding for construction, alteration, repair, and maintenance of state-owned buildings and grounds. The program, as established in Title 17, Chapter 7, part 2, MCA, was developed in order to present a single, comprehensive, and prioritized plan for allocating state resources for the purpose of capital construction and repair of state-owned facilities. Historically, the LRBP has been funded with a combination of cash accounts and bonding. The various types of cash accounts include state and federal special revenue funds, other funds (such as university and private funds), and long-range building program account funds.

LFD COMMENT The LRBP program, over time, has changed from the original program vision. Now, the LRBP budget includes projects which are not construction, alteration, repair, and maintenance of state-owned buildings and grounds. For example, for a number of years the LRBP has included projects for the Department of Fish, Wildlife, and Parks (FWP) that fund several grant programs. As seen in the Future Fisheries and Grant Programs/Federal Projects, these projects differ from the usual LRBP projects because they are programs that provide grant funds to private individuals and communities for capital projects on non-state owned lands. Another unusual project that has been included in LRBP in recent biennia is the Department of Transportation (DOT) project titled, U.S. Highway 93 Projects. The Highway 93 project differs from the original vision because it is highway capital construction, rather than the construction, major maintenance, or acquisition of state-owned buildings and lands. In the 2011 biennium, the LRBP will again be changed with the inclusion of State Building Energy Conservation Program (SBECP) projects. While this program is the same in purpose, major capital maintenance, it is typically not included as a component of the LRBP.

Figure 1 summarizes capital project appropriations for each biennium since 1999, along with the executive request for the 2011 biennium (R).

Long-Range Building Program Capital Projects Appropriations by Fund Type and Biennium									
Biennium	LRBP Cash	Other State Funds	State Special	Federal Special	Authority Only	(2)	Total LRBP Cash Program	G.O. Bonding	Total LRBP Program
1999	\$9,159,658		\$24,058,107	\$15,092,557	\$30,013,619		\$78,323,941	\$43,319,315	\$121,643,256
2001	7,515,000	170,000 (1)	22,204,804	39,236,497	46,495,000		115,621,301	33,403,750	149,025,051
2003	5,489,660		20,420,275	15,800,000	39,105,080		80,815,015	25,025,286	105,840,301
2005	3,281,500		24,044,460	11,319,212	41,095,000		79,740,172		79,740,172
2007	35,438,075	500,000 (3)	26,945,974 (4)	19,984,000	139,697,500		222,565,549	53,100,000 (5)	275,665,549
2009	139,676,000	18,000,000 (6)	51,947,160 (7)	48,178,978	46,600,000		304,402,138		304,402,138
2011R	22,565,000	15,357,000 (8)	50,665,000 (7)	9,435,000	15,050,000		113,072,000		113,072,000

(1) General Fund
 (2) Projects that require authority only to use higher education funds, proprietary funds, and General Service internal service funds, appropriations are not required
 (3) Capital Land Grant Funds
 (4) Excludes the HB 5 appropriation of \$133.8 million for Highway 93 construction projects (this is not a LRBP project)
 (5) Excludes the HB 540 bond authorization of \$19.5 million for the St. Mary's Water Project and the Ft. Belknap Water Compact (these are not a LRBP project)
 (6) Includes capital land grant (\$4 million), FWP capital projects (\$10 million), and DOC proprietary funds (\$293,000)
 (7) Includes an appropriation for Highway 93 construction projects (this is not a LRBP project)
 (8) Includes FWP capital projects funds (\$2 million) and SBECP capital projects funds (\$21.5 million)

Figure 1

EXECUTIVE RECOMMENDATION

NOTE: The Legislative Fiscal Division analysis of the Long-Range Building Program (LRBP) budget has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for the LRBP was reduced by \$28.0 million, which would directly affect the planned general fund one-time only transfer to the LRBP. The reduction represents a 20.0 percent reduction of total funds and a 32.7 percent reduction of LRBP capital project funds from the first executive budget. In Figure 2, reduced and eliminated projects are designated with a “®” following the project name.

Long-Range Building Program - Cash Projects Executive Recommendation - 2011 Biennium									
Rank	Project	Capital Project Funds			Executive Recommendations - Cash Projects				
		LRBP	FWP	SBECP	State Special	Fed Special	Authorization	Total	
Department of Administration									
3	Renovation & Energy Improvements, State Liquor Warehouse			\$460,000			\$1,750,000	\$2,210,000	
4	Mechanical & Energy Projects, Capitol Complex			1,533,000			1,600,000	3,133,000	
10	SW - Energy Related Deferred Maintenance ®	\$3,150,000						3,150,000	
13	SW - Cabinet Agency Energy Projects ®			5,525,000				5,525,000	
15	SW - Spending Authority, Utility Energy Conservation Funds						2,000,000	2,000,000	
16	SW - Hazardous Materials Abatement	400,000						400,000	
17	SW - Roof Repairs & Replacements	1,310,000				\$700,000		2,010,000	
18	Elevator & ADA Modifications, Capitol Complex						1,450,000	1,450,000	
19	SW - Repair/Preserve Building Envelopes	1,500,000						1,500,000	
20	SW - Code Deferred Maintenance	2,000,000						2,000,000	
23	Infrastructure Repairs, State Capitol	500,000					300,000	800,000	
25	SW - Campus Infrastructure	1,000,000						1,000,000	
28	Parking Lot Upgrades, Capitol Complex						250,000	250,000	
31	SW - Upgrade Fire Protection Systems	800,000						800,000	
37	SW - Campus Master Planning	200,000			\$100,000		200,000	500,000	
Department of Agriculture									
30	Renovation & Energy Upgrades, State Grain Lab	525,000						525,000	
Department of Commerce									
24	Historic Preservation & Supporting Improvements, MHC Statewide ®	750,000						750,000	
Department of Corrections									
2	Energy Conservation Improvements, DOC	1,260,000		2,620,000			500,000	4,380,000	
8	Alternative Energy-Biomass Boiler, MSP			740,000		250,000		990,000	
29	Emergency Power System, MSP	500,000						500,000	
34	Renovate Low Support, MSP	1,660,000						1,660,000	
38	New Building for Youth Transition Center	1,310,000						1,310,000	
39	Improve Food Production, DOC	300,000						300,000	
Department of Military Affairs									
5	Energy Consumption Improvements, DMA			265,000			885,000	1,150,000	
26	Storm Water Improvements/Infrastructure, Phase 3, FT Harrison						1,600,000	1,600,000	
27	Paving Parking Lots, DMA Statewide	100,000					100,000	200,000	
40	Federal Spending Authority						2,000,000	2,000,000	
Department of Fish, Wildlife, and Parks									
45	Future Fisheries				1,150,000			1,150,000	
46	Hatchery Maintenance				575,000		275,000	850,000	
47	Community Fishing Ponds				50,000			50,000	
Sub-Total:		\$17,265,000	\$0	\$11,143,000	\$1,875,000	\$5,810,000	\$8,050,000	\$44,143,000	

Figure 2 (continued on next page)

Long-Range Building Program - Cash Projects
Executive Recommendation - 2011 Biennium

		Capital Project Funds			Executive Recommendations - Cash Projects			
Rank	Project	LRBP	FWP	SBCEP	State Special	Fed Special	Authorization	Total
	Balance:	\$17,265,000	\$0	\$11,143,000	\$1,875,000	\$5,810,000	\$8,050,000	\$44,143,000
Department of Fish, Wildlife, and Parks (cont.)								
48	Clearwater Fish Barrier				825,000	25,000		850,000
49	Habitat Montana				8,110,000			8,110,000
50	Upland Game Bird Program				1,525,000			1,525,000
51	Wildlife Habitat Maintenance				1,010,000			1,010,000
52	Migratory Bird Stamp Program				620,000			620,000
53	Bighorn Sheep				150,000			150,000
54	Hunting Access				2,500,000			2,500,000
55	Access Montana - FWP Capital Projects Fund		2,000,000					2,000,000
56	Parks Program				3,040,000	2,000,000		5,040,000
57	FAS Acquisition				500,000	100,000		600,000
58	FAS Site Protections				900,000			900,000
59	Grant Programs/Federal Projects				320,000	1,500,000		1,820,000
60	Admin Facilities Repair & Maint				1,390,000			1,390,000
Department of Natural Resource and Conservation								
14	Energy/Major Repairs & Small Projects, DNRC Statewide	1,000,000			0			1,000,000
41	Increase Appropriation Oil & Gas Building, Billings ®			0	0		0	0
Department of Public Health and Human Services								
6	Montana Veterans Home Improvements, Phase 2 ®		0	0				0
9	MMHNGC Improvements, Phase 2 ®			1,589,000				1,589,000
11	DPHHS Energy Projects, Statewide							0
33	Replace Nurse Call System, EMVH ®				0			0
35	Improve Medical Services, MDC	450,000						450,000
36	Renovate Superintendent's Residence, MVH ®				0			0
Department of Transportation								
21	Statewide Maintenance, Repair & Small Projects				2,625,000			2,625,000
42	Equipment Storage Buildings, Statewide				1,175,000			1,175,000
43	US Highway 93 Projects				24,100,000			24,100,000
Montana School for the Deaf and Blind								
7	Energy & Facility Improvements, MSDB	250,000		25,000				275,000
Montana University System								
1	Energy Conservation Improvements, MUS ®	0		0			0	0
12	Energy Projects at Community Colleges, Statewide			600,000				600,000
22	Code/Deferred Maintenance, MUS ®	3,600,000					1,000,000	4,600,000
32	Renovate Hagener Science Center, MSU-N ®	0						0
44	General Spending authority, UM						6,000,000	6,000,000
Total Cash Program:		\$22,565,000	\$2,000,000	\$13,357,000	\$50,665,000	\$9,435,000	\$15,050,000	\$113,072,000
® Reflects Dec. 15, 2008 executive budget revisions project reductions or eliminations								

® Reflects Dec. 15, 2008 executive budget revisions project reductions or eliminations

Figure 2 (continued from previous page)

The 2011 biennium executive request for the LRBP is focused on energy conservation improvements across the state. The energy conservation component of the LRBP request includes an all funds total of \$56.5 million in energy conservation projects, or 23.5 percent. Many of the energy conservation projects double as deferred or major maintenance projects. Keeping in mind that there is some duplication with the energy conservation projects, deferred or major maintenance projects are \$59.4 million, or 52.5 percent of the all funds budget. The executive proposal includes no LRBP bonded projects for the 2009 biennium. Instead, the executive proposes extensive use of one-time general funds in the 2011 biennium LRBP budget. The cash program is reduced by 62.9 percent from the historic level of funding in the 2009 biennium. Funding, as seen in the table above, includes:

- \$17.3 million long range building program projects funding (LRBP)
- \$5.2 million general fund (one-time transfers) (LRBP)
- \$13.4 million "other" capital project funds (FWP and SBECF projects, funded with general fund OTO)
- \$50.7 million state special revenue (includes \$24.1 million for Highway 93 construction projects)
- \$9.4 million federal special revenue
- \$15.1 million in authority only (appropriations are not required)

LRBP CASH PROGRAM

Figure 2 shows the projects recommended by the executive, listed by agency. The listed projects will be requested in the LRBP cash program bill, typically designated as HB 5, and are numbered to indicate priority.

LFD COMMENT

LRBP Budget Changes: The LRBP budget analysis, as presented in this section of the LFD Budget Analysis, contains project totals that differ from the executive budget. The difference is based on a \$4.0 million funding reduction made to the *Energy Related Deferred Maintenance* project. The change, requested by the Architecture and Engineering Division of the Department of Administration (A&E) and expected to be included in the LRBP bill, reduced \$1 million from the state special funds list, \$1 million from the federal special funds list, and \$2 million from the "other funds" list (as shown in the executive budget). Although other changes were made to the presentation of the LRBP project information, total appropriations were only reduced by \$4.0 million.

There are other differences between the LFD and executive presentation of the LRBP budget, as shown in Figure 2, above. The LFD has historically made these changes to provide more information to the legislature. Differences include:

- Projects sorted by agency – To provide an agency specific view of the requests
- Changed dollar placement of FWP, Access Montana project – To show as a capital funds project
- Changed dollar placement of Department of Military Affairs (DMA), Federal Spending Authority project – This project is federal funding which requires appropriation
- Disaggregation of the SBECF projects – To allow a total quantification of the SBECF projects
- Provision of an authorization column – To show projects that do not require appropriation
- Elimination of the "Other" column – Values included in the SBECF and Authorization columns

Additional Changes: Additional changes were made in the executive budget revision of Dec. 15, 2008. The new reductions, as seen in Figure 2, amounted to a total of \$28.0 million and include:

- \$19,100,000 – MUS-Energy Conservation Improvements (#1), Eliminated
- \$1,200,000 – DPHHS-MT Veterans Home Improvements, Phase 2 (#6), Eliminated
- \$543,000 – DPHHS-MMHNC Improvements, Phase 2 (#9), Eliminated
- \$350,000 – SW-Reduction of the Energy Related Deferred Maintenance Projects (#10), Reduced
- \$400,000 – MUS-Code/Deferred Maintenance (#22), Reduced
- \$650,000 – DCOM-Historic Preservation & Supporting Improvements (#24), Reduced
- \$2,150,000 – Renovate Hagener Science Center, MSU N (#32), Eliminated
- \$144,000 – DPHHS-Replace Nurse Call System, EMVH (#33), Eliminated
- \$180,000 – DPHHS-Renovate Superintendent's Residence, MVH (#36), Eliminated
- \$1,300,000 – DNRC-Increase Appropriation for Oil & Gas Building, Billings (#41), Eliminated

**LFD
COMMENT
(continued)**

Another change included in the executive budget revision and seen in Figure 2 is a reduction to the SBECF budget. For more information on the SBECF reduction, refer to the SBECF section of this report, beginning on page F-8.

- o \$2,000,000 – Statewide-Cabinet Agency Energy Projects (#13), Reduced

**LFD
COMMENT**

Including the State Building Energy Conservation Program (SBECF): In the 2011 biennium, appropriations of \$13.4 million for the SBECF have been included in the LRBP executive budget proposal. The SBECF capital projects budget was included in the LRBP budget because of the interwoven nature between many of the LRBP maintenance and SBECF energy conservation capital projects. There are both pros and cons related to including the SBECF budget in the LRBP budget. The pros include the concept that combining the project appropriations would provide the legislature a more comprehensive picture of the cost of the capital projects. Additionally, because the LRBP and SBECF projects would be appropriated as one project and because in many cases the project cannot move forward without both the LRBP and SBECF appropriation components, there is reduced potential of unneeded appropriations should the legislature choose to eliminate one of the recommended projects from the list. The con is that the appropriation of the SBECF in the LRBP budget makes the LRBP budget appear \$13.4 million greater than it would have otherwise appeared.

**LFD
COMMENT**

Highway Project: The executive budget recommends a \$24.1 million appropriation for U.S. Highway 93 projects. This is the third time that the LRBP budget has included a major highway maintenance project for Highway 93. Including the 2011 appropriation of \$24.1 million, a total of \$183.9 million has been appropriated for Highway 93 projects in the LRBP budget. There are both pros and cons to appropriating the Highway 93 projects in the LRBP. The pro is the benefit achieved by appropriating major construction projects, including highway construction projects, in a capital projects bill. When designated as a capital project, the appropriation remains in effect until the project is complete (17-7-212, MCA), and the need for re-appropriation every two years, as required in the general appropriations act, is eliminated. There are two cons to appropriating a highway project in the capital projects bill. First, the cohesion attained by appropriating all the major highway projects in one piece of legislation is lost. Consequently, to adequately analyze the need for the project and related appropriations, one would need to analyze how the project fits into the entire highway construction budget. The second con is the impact the appropriation has on the appearance of the LRBP budget. This project represents 45.4 percent of total state special funding in the LRBP budget, 17 percent of the all funds LRBP budget, and makes the LRBP budget appear \$24.1 million greater than it would have otherwise appeared.

**LFD
COMMENT**

Presentation of LRBP Project Status: The Long-Range Planning Workgroup (LRPwg), a workgroup of the interim Legislative Finance Committee, developed a LRBP project status tracking document over the 2008-2009 interim. This document is intended to provide relevant information about the progress of LRBP projects in an easily understandable and brief document. The document includes all uncompleted projects from prior biennia and all those projects appropriated or authorized by the last legislature. The status document does not include projects which consist of numerous statewide projects. This document is available through the Legislative Fiscal Division and will be presented to the Long-Range Planning Subcommittee when it meets in January.

Funding – Cash Program

LRBP Cash Program Funding

Funding for the Long-Range Building Program comes from various sources including the long-range building program account, state special revenue funds, federal funds, and other funds (such as university funds, private funds, and capitol land grant funds). Although the LRBP fund does not typically represent the largest portion of funding for capital projects, the revenues allocated to this account represent the only specific commitment of state

funds for capital projects. In the 2011 biennium, the executive recommendation proposes a greater commitment to state building maintenance by including a one-time general fund transfer of \$5.2 million to the LRBP account.

The LRBP account revenues include a 2.6 percent distribution of cigarette tax revenue and 12.0 percent distribution of coal severance tax revenue. Other income includes LRBP interest earnings and supervisory fees paid to the Architecture and Engineering Division (A&E) of the Department of Administration.

Figure 3 shows the projected fund balance for the LRBP account for the 2011 biennium. As shown, approximately \$22.6 million is requested for cash program projects in the LRBP projects bill, leaving an estimated cash balance of \$200,208 at the end of the 2011 biennium. The fund balance estimate includes the proposed transfer of \$5.2 million in one-time only transfers. This estimated ending fund balance, as prepared by the LFD, is slightly higher than that shown in the executive budget, primarily because of higher cigarette tax and coal severance tax revenues estimates, as adopted by the Revenue and Transportation Interim Committee (RTIC).

Long-Range Building Program Fund (05007) Cash Balance Projection 2011 Biennium	
Estimated Beginning Cash Balance-(7/1/2009)	\$5,027,410
Revenue Projections ¹	
Cigarette Tax	\$4,255,000
Coal Severance Tax	11,325,000
Interest Earnings	3,093,171
Supervisory Fees	866,664
2011 Biennium Revenues	19,539,835
Expenditures	
Operating Costs-A & E Division ⁵	(3,980,628)
Debt Service-2003G ²	(2,646,207)
Debt Service-2005A ³	(1,705,202)
Funding Switch ⁴	1,330,000
Total Expenditures	(7,002,037)
Balance Available for Capital Projects	17,565,208
One Time General Fund Transfer ⁵	5,200,000
Total Available for Capitol Projects	22,765,208
Executive Proposals LRBP Cash Account ⁵	(22,565,000)
Estimated Ending Cash Balance - (6/30/2011)	\$200,208
¹ Based on RTIC revenue estimates	
² Refinance of 1996D issue	
³ Refinance portions of 1997B and 1999C issues	
⁴ Debt Service Funding Switch, 2001 legislative session	
⁵ Based on executive budget proposal	

Figure 3

General Fund OTO Transfers

According to information in the executive budget, there would be general fund one-time only (OTO) transfers for four separate purposes contained in the LRBP bill, HB 5. As shown in Figure 4, the transfers include:

- General fund OTO transfers of a total \$5.2 million to the LRBP. This transfer of funds would increase the funds available to the LRBP for major maintenance and deferred maintenance projects. The additional funds would also support the Governor's 20 x 10 Initiative; an effort to increase the energy efficiencies of state government agencies by 20 percent by the year 2010
- General fund OTO transfers of \$13.4 million to the SBECF. This transfer would provide the funding for energy conservation projects in state buildings. As in the case of the LRBP transfer, this transfer supports the Governor's 20 x 10 Initiative
- General fund OTO transfers of \$2.0 million for the Access Montana project. The project provides funds that are used to acquire Montana properties that will provide access to rivers and other waterways throughout the state. Figure 4 shows the general fund OTO transfers by fiscal year
- General fund OTO transfers of \$1.5 million for administration of the SBECF. While these funds will be transferred in the LRBP bill, HB 5, the funds will be appropriated in the general appropriations act (HB 2)

Long-Range Planning Program General Fund Summary: Proposed General Fund OTO Transfers (millions)			
Program	Fund	Transfers	
		FY 2010	FY 2011
Long-Range Building Program	05007	\$2.6	\$2.6
Fish, Wildlife, and Parks, Access Montana	05144	1.0	1.0
State Building Energy Conservation Program	05145	10.4	3.0
State Building Energy Conservation Program-Administration	02370	1.0	0.5
Total General Fund OTO Transfers:		\$15.0	\$7.1

Figure 4

**LFD
COMMENT**

LRBP Funding: While not readily apparent in the 2011 biennium, the LRBP continues to experience overall reduced revenues that could become a significant problem in the future. The LRBP cash program has been supported by distributions from cigarette tax for many years. Coal severance tax support was added to the LRBP to provide debt service payments on three bond issues and since has become increasingly important to the support of the program. These two revenue sources provide the greatest part of the funding for the LRBP cash program. However, the base of the cigarette tax is expected to continue to decline in future years, reducing the revenues expected in the LRBP program.

Since the early 1980's, LRBP account revenues have declined from an annual proportion of 1.74 percent to a current 0.5 percent of the annual building replacement value. A&E recommends that not less than 1 percent, or \$12.0 million, of building replacement value should be re-invested in state owned buildings annually for the deferred maintenance of Montana's \$1.2 billion of general fund supported state owned buildings (including the University System). The recommended 1 percent of building replacement value addresses construction needs beyond what would be considered typical operations and maintenance included in the operational budgets of the state agencies. LRBP revenues are expected to provide \$12.5 million for building and maintenance projects in the 2011 biennium. If the LRBP monies were entirely devoted to major maintenance projects, the state would only be funding a little over half of the estimated need.

Deferred maintenance occurs as necessary maintenance projects are postponed until a future date, typically as a result of funding issues. A backlog will occur when building maintenance is not adequately funded. The magnitude of the deferred maintenance backlog is highly speculative without formally surveying all agencies to quantify the needs. However, an analysis prepared by the Legislative Fiscal Division in FY 2006 projected the backlog to be approximately \$204 million. Given the results of that analysis, and in consideration of the many deferred maintenance projects funded in the 2009 biennium, a current estimate of the backlog would be around \$139 million. However, the backlog will continue to grow as the cost of deferred maintenance continues to increase, both as an issue of time (maintenance costs increase as buildings grow older and inflation increases costs in time) and as new buildings are added to the state's inventory.

The preferred method of managing the funding inadequacy of the LRBP and the growing deferred maintenance backlog has been to increase program funds with distributions from excess revenues in the general fund in the form of OTO transfers. In the 2007 biennium, OTO transfers to the LRBP directed to reduce the deferred maintenance backlog were \$30.1 million, in the 2009 biennium, \$66.5 million, and in the 2011 biennium, the recommended infusion of general fund for deferred maintenance is \$5.2 million. While this use of OTO funds helps to reduce the backlog and meet Montana's major building maintenance needs, it does not provide a solution for the heart of the problem, the inadequacy of on-going funding. Without a solution to the funding issue, the continued growth of the deferred maintenance backlog cannot be contained. The Long-Range Planning Subcommittee may wish to discuss solutions to the issue of funding inadequacy in the LRBP.

**LFD
COMMENT**

Transfer Contingency: As was the case in the 2009 LRBP budget, the 2011 biennium transfers of one-time only general fund monies would be conditioned on the size of the fund balance in the general fund. Information provided in the executive budget states that one-time only transfers would be contingent on an ending fund balance in the general fund of at least \$125 million, after consideration of the transfers. The 61st Legislature must keep in mind that should revenues not materialize as anticipated and transfers are reduced, the LRBP would be not have sufficient funds for all the projects. Because these projects are capital projects with appropriation authority that continues until the project is completed, a reduction of the planned transfers would either require new changes in project funding in future biennia, or future legislatures may need to eliminate appropriations. Additional questions are raised as a result of the contingent nature of the OTO transfers, for example:

- When would the determination to reduce transfers be made, and by whom?
- How will the reductions be made, pro-rata or whatever the executive believes is appropriate?
- If the fund balance drops below \$125 million, will the transfers be totally eliminated?

From a legislative perspective, the contingent nature of the OTO transfers is not good fiscal policy. If sufficient funds are not available to fund projects, the project appropriations should be eliminated. The legislature should not be delegating transfer authority to the executive without specific criteria specified in law. These guidelines should be designed to outline the directives the legislature wants to be followed. The Long-Range Planning subcommittee may wish discuss the transfer contingency in more detail.

STATE BUILDING ENERGY CONSERVATION PROGRAM

PROGRAM DESCRIPTION

The State Building Energy Conservation Program (SBECP), administered by the Department of Environmental Quality (DEQ), was established by the 1989 Legislature to reduce operating costs of state facilities by identifying and funding cost-effective energy efficiency improvement projects. Statutory authority is found in Title 90, Chapter 4, part 6, MCA. Energy efficiency improvements include projects such as:

- Replacing old, inefficient boilers
- Upgrading inefficient lighting
- Increasing ventilation system efficiency
- Insulating buildings
- Providing more effective temperature controls
- Upgrading water conservation systems

SBECP projects are designed so that energy savings exceed costs. The estimated savings of energy costs are used to reimburse the project costs and finance operational costs. Program recommendations encourage conservation measures which have a service life of at least 15 years. However, energy savings are expected to continue throughout the life of the project. To date, the program has completed 84 projects and currently has 7 projects in design and construction. Cumulative energy savings captured through FY 2008 totals over \$11 million.

Projects come to the SBECP in two ways: either directly to the program because of the energy saving benefits of the project, or in conjunction with projects planned under the Long Range Building Program. DEQ offers state agencies assistance in evaluating energy use and identifying energy conservation projects. Program engineers evaluate all projects proposed for the Long-Range Building Program (LRBP) administered by the state's Architecture and Engineering Division (A&E) to assess the energy savings potential on proposed remodeling projects. Projects with the potential for energy savings are funded through the SBECP, and are often jointly funded with the LRBP deferred maintenance funds.

EXECUTIVE RECOMMENDATION

NOTE: The Legislative Fiscal Division analysis of the State Building Energy Conservation Program (SBECP) budget has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for SBECP projects were reduced by \$10.1 million, which would directly affect the planned general fund one-time only transfer to the LRBP. The reduction represents a 43.2 percent reduction of projects. In Figure 5, reduced and eliminated projects are designated with a "®" following the project name.

The executive budget recommends using the program functions of the SBECP and the LRBP to facilitate the Governor's "20 x 10 Initiative". Consequently, the SBECP is recommended to be funded at the historic level of \$14.9 million. A general fund transfer of \$13.4 million is proposed to finance 11 SBECP project appropriations and an appropriation of \$1.5 million will be recommended in the general appropriations act (HB 2). This level of funding is almost four times the highest level of program funding, which occurred when the 59th Legislature appropriated \$3.8 million in bond proceeds for the program. However, significant investments in energy related facility improvements may be required for agencies to meet the goals of the 20 x 10 Initiative.

20 x 10 Initiative

In consideration of the significant increases in the cost of energy that occurred in 2007 and 2008, and in conjunction with his work with the Western Climate Initiative, Governor Schweitzer announced an initiative to increase energy efficiency in state government by 20 percent by the end of 2010. The "20 x 10 Initiative" calls on executive branch agencies to reduce energy use in buildings and operations. The initiative directs the DEQ and the Department of Administration to lead the 20 x 10 effort.

The SBECP is one of the primary means available to state agencies to reduce energy use and energy cost in buildings. The 20 x 10 initiative has spurred the interest of all state agencies, and there has been a rapid increase

State Building Energy Conservation Program Executive Recommendation - 2011 Biennium					
LRBP Rank	Project	Description	SBCEP Cost	Annual Savings	Years to Total Cost Recovery
Department of Administration					
3	Renovation and Energy Improvements, State Liquor Warehouse		\$460,000	\$36,165	12.72
4	Mechanical & Energy Projects, and Controls, Capitol Complex				
	Aviation Support Building	Infrared heating and boiler replacement	\$157,039	\$13,154	11.94
	Capitol Complex Boiler Plant Building	Burner upgrade and interruptible supply	340,535	54,605	6.24
	Walt Sullivan Building	Replace chiller and steam boiler	138,384	11,592	11.94
	Justice Building	Air Conditioning Upgrade	29,176	2,444	11.94
	Lee Metcalf Building	Lighting upgrade and controls	106,211	8,897	11.94
	Cogswell Building	Chiller replacement	10,684	895	11.94
	DPHHS Building	Building controls	152,880	12,806	11.94
	FWP Building	Boiler replacement and VAV retrofit	63,390	5,310	11.94
	Scott Hart Building	Chiller replacement and ventilation	34,070	2,854	11.94
	Capitol Complex	Lost Opportunities and Commissioning	<u>500,631</u>	<u>41,930</u>	11.94
	Project Total:		\$1,533,000	\$154,487	9.92
13	Cabinet Agencies	Statewide Energy Projects			
	Residential Office Buildings 6th & 8th Avenues	New Furnaces and Envelope	\$24,000	\$1,600	15.00
	State Grain Lab Mechanical Upgrade	Upgrade mechanical controls and demand ventilation	10,000	800	12.50
	Reader's Alley and Miscellaneous Virginia City Buildings	Lighting and Heating Upgrades	36,000	2,400	15.00
	Hatchery	Energy Improvements Statewide	200,000	26,706	7.49
	Regional Headquarters, Billings	HVAC replacements, controls and lighting	95,355	6,357	15.00
	Regional Headquarters, Missoula	HVAC replacements, controls and lighting	24,000	1,600	15.00
	Regional Headquarters, Great Falls	HVAC replacements, controls and lighting	30,000	4,000	7.50
	Regional Headquarters, Kalispell	HVAC replacements, controls and lighting	65,505	4,367	15.00
	Butte Highway Patrol Heating & Envelope Improvements	New HVAC, Lighting and Envelope	10,500	700	15.00
	State Crime Lab	HVAC replacement and building wide controls	270,000	22,617	11.94
	Workforce Center, Missoula	Controls upgrade	7,500	500	15.00
	Workforce Center, Great Falls	Controls upgrade	86,880	5,792	15.00
	Workforce Center, Butte	Controls upgrade	18,000	1,200	15.00
	Workforce Center, Miles City	Controls upgrade	15,195	1,013	15.00
	Workforce Center, Bozeman	Controls upgrade	30,000	2,000	15.00
	Spurgin Road Complex	New pump frequency drives, lighting, furnace replacements	78,000	5,200	15.00
	Field Office Campuses Statewide	Furnaces, envelope improvements, lighting	601,000	31,000	19.39
	1227 11th Avenue	Retrocommission	48,000	3,200	15.00
	1300 11th Avenue	Replace HVAC System	58,500	3,900	15.00
	Administration Building	VAV retrofit and controls	60,000	22,400	2.68
	PE Complex	Lighting controls and domestic hot water improvements	70,280	5,857	12.00
	Helena HQ	VAV retrofit and lighting	669,000	75,000	8.92
	Helena Shop	Heat recovery new boilers and controls	258,330	42,205	6.12
	Billings	Heating System and lighting upgrades	300,000	25,130	11.94
	Bozeman	Heating System and lighting upgrades	250,000	20,942	11.94
	Missoula	Heating System and lighting upgrades	250,000	20,942	11.94
	Maintenance Shops Statewide	Unit heater replacement, lighting and envelope	1,000,000	83,767	11.94
	Cabinet Agencies ®	Lost Opportunities and Commissioning	<u>958,955</u>	<u>80,340</u>	11.94
	Project Total:		\$5,525,000	\$501,534	11.02
Department of Corrections					
2	Men's Prison Mechanical & Electrical Upgrades		\$2,620,000	\$219,468	11.94
8	Alternative Energy-Biomass Boiler		740,000	45,000	16.44
Department of Military Affairs					
5	Statewide Energy Conservation Improvements		\$265,000	\$17,667	15.00
Department of Public Health and Human Services					
6	Montana Veterans' Home Improvements, Phase 2 ®		\$0	\$0	
9	Montana Mental Health Nursing Center Improvements, Phase 2 ®		0	0	
11	Statewide Energy Projects				
	Warm Springs Boiler	Removal of old central boiler with smaller staged boilers	\$210,000	\$14,000	15.00
	Eastern Montana Veterans' Home	Kitchen Ventilation Improvements and Controls	418,776	32,220	13.00
	Montana Developmental Center	Energy Upgrades	349,724	39,498	8.85
	Lost Opportunities and Commissioning	Lost Opportunities and Commissioning	<u>610,500</u>	<u>51,108</u>	11.95
	Project Total:		\$1,589,000	\$136,826	11.61
Montana School For the Deaf and Blind					
7	Energy and Facility Improvements	Building envelope and lighting	\$25,000	\$1,666	15.01
Montana University System					
1	Energy Conservation Improvements, MUS ®		\$0	\$0	
12	Energy Projects at Community Colleges, Statewide		<u>600,000</u>	<u>50,260</u>	11.94
	SBEC Program Total:		\$13,357,000	\$1,163,073	11.48

® Reflects Dec. 15, 2008 executive budget revisions project reductions or eliminations

Figure 5

in the number of energy studies being conducted in preparation for additional investments in building energy efficiency. DEQ has contacted all state agencies to assess the needs for energy studies and will initiate about 50 energy studies in the current biennium. Projects from these studies would be proposed for funding in the 2009 Legislative Session, resulting in a much larger proposal for funding than ever before. The increase in size of the proposal for funding is timely because state natural gas costs increased by 51.4 percent in FY 2008 and high energy costs are expected through the upcoming biennium.

Figure 5 provides a list of the SBECF projects proposed in the executive budget. The table provides the LRBP rank (appropriations are included in the LRBP budget), the appropriation title and (in cases of appropriation requests made up of multiple small projects) specific project breakouts, a description of the project (where available), the cost of the project, the annual savings expected through the project, and the number of years it will take for the agencies to reimburse the SBECF for the project. When all projects are complete, the savings are estimated to be approximately \$1.2 per year and the average agency project reimbursement is approximately 12 years.

FUNDING

The executive budget recommends total SBECF related transfers of \$14.9 million, provided as two separate transfers. The first proposed transfer will be \$13.4 million (\$10.4 million in FY 2010 and \$3.0 million in FY 2011) for projects. The transfer would be deposited in a SBECF capital projects fund. The second proposed transfer will be \$1.5 million (\$1.0 million in FY 2010 and \$0.5 million in FY 2011) for operations, and would be transferred into a SBECF state special revenue fund and appropriated in the general appropriations act (HB 2).

LFD COMMENT

Program Changes

Redeveloped Program Specs: In past years, bond proceeds have funded the SPECF. Agencies reimbursed the SBECF with the energy savings estimated to be realized in their projects. The SBECF then used the energy savings reimbursements to pay the debt service on the bond and to pay the DEQ administrative costs. If the savings exceeded the cost of the debt service and administrative expenses, then any excess was “swept” into the Long-Range Building Program to fund major maintenance in state buildings.

In the 2011 biennium, the executive budget proposes a redevelopment of the SBECF. With an infusion of \$14.9 million in general fund OTO dollars, the program would be developed as a revolving project program. In the first biennium of the redeveloped program, projects would be funded with \$13.4 million of the general funds. The agencies will reimburse the SBECF for the cost of the project, along with an annual fee of 3% against the outstanding principle. Reimbursements for project costs will fund new energy conservation projects and program administration.

Program Ties: The executive recommendation suggests including the appropriations for the SBECF in LRBP budget because of the interwoven nature inherent in many of the LRBP maintenance and SBECF energy conservation capital projects. The LRBP provides design and construction services for the capital improvement projects, including the energy projects authorized through the SBECF. SBECF staff engineers review LRBP proposals for potential energy conservation projects. Including energy improvements as part of LRBP deferred maintenance projects decreases the cost of the energy project. Similarly, energy dollars can make facility improvement projects financially feasible. The majority of SBECF projects funded in the past four years have also included LRBP funds.

**LFD
ISSUE**

Administrative Fees: The DEQ will propose a statutory change to provide an annual administrative fee of 3 percent to support the costs of the SBECF. DEQ states that a similar fee was previously charged as a project cost and paid with bond proceeds (when the program was funded with bonds). DEQ proposes to calculate the fee similar to an interest rate on debt, with the 3 percent fee imposed annually on the remaining balance after the annual reimbursement. When the entire project budget of \$13.4 million is analyzed for the effects of the 3 percent annual fee and at an expected savings reimbursement of \$1.2 million per year, agencies will pay total fees of approximately \$2.4 million over the 12 year period, resulting in an additional cost to agencies of over 18 percent of the projects costs.

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Lack of Consistency: The proposed transfer of OTO general fund transfers for the SBECF (20 x 10 Initiative) are presented with different amounts in different parts of the executive budget. The overview of the executive budget (page 2, in the table titled General Fund One-Time Only (OTO) Recommendations) provides an appropriation for the Long-Range Building Program, Governor's 20 x 10 Initiative, of \$25.0 million. In the following detail of the OTO appropriations (page 4, Long Range Building Program (HB 5)), the narrative provides information of transfers of \$41.15 million, \$23.5 million to reduce energy consumption (projects only). However, in the SBECF section of Section F of the executive budget (page F-20), the narrative mentions a transfer of \$24.0 million, of which \$22.5 million will be used for project appropriations and \$1.5 million will be used for operational costs. Ultimately, the final funding for projects was reduced in the Dec. 15, 2008 revision of the executive budget. This analysis of the executive budget is based on total general fund OTO transfers to the SBECF of \$14.9 million, \$13.4 million for SBECF projects and \$1.5 million for DEQ administrative costs.

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Measure of Success: In the past, some legislators have questioned the verification of actual energy savings resulting from SBECF projects. Given the extensive conservation related capital investment proposed in the executive budget, verification of actual energy savings and efficiencies will become a more significant issue. With regards to the 20 x 10 Initiative, some anticipated questions might include:

- How will agencies show that they have met the energy conservation goals of the program?
- How will agencies determine if the project savings are greater than the reimbursements they will be required to make to the program?
- How will the legislature know that the appropriation of \$13.4 million dollars for energy related projects has effected positive change?

One recommended solution that could clear up concerns and help answer the questions raised above would be the development of a reporting process. Reports could be developed with information provided by the new DEQ energy monitoring system, EnergyCAP software purchased in FY 2008, and through formal energy audits. It is critical to know the answers to the questions raised above. Without the answers to these questions, the legislature will never know that this significant appropriation of state dollars has met the goal of energy reduction. Providing the results to the executive, agencies, and legislature could answer the questions raised above and reduce skepticism about the actual energy savings which result from these capital projects. The Long-Range Planning Subcommittee may wish to discuss the need for a reporting process related to the appropriations for the SBECF.

Meeting the Goal of 20 x 10: The Governor's 20 x 10 Initiative proposes increasing energy efficiency by 20 percent by 2010. The Governor's initiative would measure the gains in energy efficiencies in reductions in British Thermal Units (BTU's) consumed. However, a 20 percent reduction in BTU's does not necessarily equate to a 20 percent reduction in costs.

In FY 2008, total energy costs for state, as recorded in the state accounting system (including electricity, natural gas, fuel oil, propane, and coal), was \$39.2 million. State energy costs increased by 39.2 percent over the total energy costs of FY 2007, \$28.2 million. Energy inflation and the addition of new state space make the calculation of energy savings based on expenditures complex. SBECF projects, as recommended in the executive

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budget with savings measured at \$1.2 million annually, will only reduce the state government consumption of energy by 4.3 percent (calculated against the FY 2008 energy costs), far from the 20 percent goal of the initiative. While “efficiencies” are expected to be gained from sources other than capital improvements, such as changes in employee behaviors and agency modifications (temperature and lighting changes), the capital improvements component was expected to have the greatest effect, and a dollar savings of 4.3 percent appears inadequate.

In the function of this fiscal analysis by the Legislative Fiscal Division (LFD), SBECF savings are provided to the office in dollars and cents. Additionally, the data on BTU/dollars/years for each of the energy sources used in state government is not readily available in the LFD office. The Long-Range Planning Subcommittee may wish to request that DEQ provide energy savings and efficiencies in both dollars and BTU’s to provide a more adequate assessment of whether the 20 x 10 initiative will meet the goal.

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Unrealized Savings: As a past policy decision, the energy savings gained in SBECF projects are never realized by the state general fund. Savings are realized by the SBECF for an average of 12 years, at which point, energy cost increases would negate all of the realized savings. One thing that SBECF projects do achieve for the state general fund, over the long run, is to reduce the slope of the cost curve. In other words, with new energy efficiencies, the cost increases due to energy inflation will not be as great, which reduces the pace that state agency energy rates are likely to increase.

The legislature and the executive branch made a policy decision to use energy savings to pay for the cost of the projects, the cost of the program, and the cost of state building deferred maintenance (as in current law)/new projects (as proposed) instead of returning the savings to the state general fund. The 61st Legislature will have the opportunity to revisit this policy in their work on the SBECF budget. Some options that might be considered by the Long-Range Planning Subcommittee include:

- Returning energy savings to the state general fund
- Allowing energy savings to continue to flow to the Long-Range Building Program for deferred maintenance on state buildings
- Approving the executive proposal to retain energy savings for use on future projects

LONG-RANGE INFORMATION TECHNOLOGY PROGRAM

PROGRAM DESCRIPTION

The Long-Range Information Technology Program (LRITP) is an alternative method of funding large information technology (IT) investments. The LRITP consolidates new IT investments in one appropriation bill, expected to be HB 10, and defines major IT enterprises as capital projects. All projects included in the LRITP bill are overseen by the state chief information officer (CIO) within the Department of Administration (DOA).

The consolidation of major IT projects is intended to achieve several goals of the administration. First, IT projects are complex and require significant and time intensive planning, design, and management efforts, and by designating the projects as "capital projects", the appropriation continues until completion of the project, as statutorily authorized in 17-7-212, MCA. Second, centralized project oversight is expected to enhance project management and foster stronger partnerships between agencies and the state CIO. Finally, having all the major projects in one piece of legislation is anticipated to provide the legislature with a broad vision of the state IT program and related investments.

EXECUTIVE RECOMMENDATION

NOTE: The Legislative Fiscal Division analysis of the Long-Range Information Technology Program (LRITP) budget has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for the LRITP was reduced by \$1.0 million, which would directly affect the planned general fund one-time only transfer to the LRITP. The reduction represents a 1.0 percent decrease of total funds or a 13 percent decrease of LRITP capital project funds. In Figure 6, reduced and eliminated projects are designated with a "®" following the project name.

Additionally, the revised executive budget increased the contingency for the general fund transfer to require a general fund ending fund balance of more than \$300 million. Because of the contingency language, and given the current estimate of the general fund balance, no general fund transfers are expected for the LRITP, and there will be no money for the MMIS replacement or the Improve Efficiency Through Imaging Technology projects. Consequently, the real reduction related to the revised executive budget is \$7.8 million or 7.6 percent of total projects.

Figure 6 shows the executive recommendation and cost of each of the LRITP projects. A description of each of the projects is provided below.

Long-Range Information Technology Program (LRITP) Executive Recommendation - 2011 Biennium						
Agency / Project / Description	LRITP Capital Projects Funds	State Special	Executive Recommendations			Total
			Federal Special	Bonding	General Fund	
<u>Department of Administration</u>						
Interoperability Montana (IM) Matching Funds					\$2,000,000	\$2,000,000
ESSC Relocation and Equipment					3,500,000	3,500,000
Governor's GIS Challenge ®					0	0
<u>Department of Labor and Industry</u>						
Building Standards System		\$2,400,000				2,400,000
Licensing Standard System		2,250,000				2,250,000
Unemployment Insurance Tax Modernization		1,735,567	\$3,000,000	\$15,000,000		19,735,567
<u>Department of Public Health and Human Services</u>						
MMIS Replacement	\$3,500,000		62,000,000			65,500,000
SEARCHES Planning			1,000,000		500,000	1,500,000
<u>Department of Revenue</u>						
Improve Efficiency Through Imaging Technology	3,366,178					3,366,178
Total Projects	<u>\$6,866,178</u>	<u>\$6,385,567</u>	<u>\$66,000,000</u>	<u>\$15,000,000</u>	<u>\$6,000,000</u>	<u>\$100,251,745</u>
® Reflects Dec. 15, 2008 executive budget revisions project reductions or eliminations						

Figure 6

Interoperability Montana Matching Funds, (DOA)

The Interoperability Montana (IM) proposal is an essential continuation of the Interoperability Montana Communication Project deployment and is intended to continue the build-out of the Interoperability Montana public safety radio system to regions in central and eastern Montana, with future impact on other areas of the state. Specifically, the funding approved through this request would provide general fund appropriations of \$2.0 million for matching funds for federal grants. These matching grants are anticipated to be utilized for infrastructure upgrades and radio system expansion in southwest, western, and central Montana. The IM project is led by a board of directors consisting of nine local and three state agencies, with local, tribal, state and federal non-voting partner groups. All 56 counties and 7 tribes are members, in addition to most state agencies that utilize radios. Over the past four years, the IM group has led deployment of equipment and services to improve interoperable communications. Previous legislative appropriations allowed the State of Montana to leverage an additional \$13.0 million in federal funding that required state matching funds.

ESSC Relocation and Equipment, (DOA)

The ESSC Relocation and Equipment proposal consists of two components which provide ITSD with 1) one-time-only funding for relocating existing IT equipment and services to the new facilities and 2) establishes the communications required to operate a second facility. The DOA requests a general fund appropriations of \$3.5 million to fund this project.

The Helena and Miles City Enterprise Systems Services Centers (ESSCs) are expected to be ready for occupancy by January, 2010. The success of the ESSCs will be greatly impacted by the start-up experience of ITSD and agencies using the ESSCs from the outset. The first component of the proposal includes the cost of using consultants experienced in moving data centers for both the planning of the move events and on-site oversight of the physical moves, movers experienced in moving sensitive electronic equipment, and charges from key vendors, to assist in the disassembly, reassembly, and testing of moved equipment.

The second component of the proposal would entail the installation of essential telecommunications equipment at the Miles City ESSC. Servers and data stored in the Eastern Montana facility must be accessible through the State of Montana secure network to provide services to state workers and Montana citizens, and to provide needed technical support for the Miles City site. Additionally, the mission of the Miles City ESSC to provide “non-stop” support for critical state services requires redundant, high quality telecommunications infrastructure in the Miles City facility. The equipment will allow site access to the wide area network (WAN), provide redundant connections to the servers and storage devices in Miles City, and support remote administration and support of Miles City equipment by Helena technicians. General fund support is requested to provide front-end financing of these important services.

Building Standards System (One-Stop Permitting), (DOL)

The primary goal of this project, which requests an appropriation of \$2.4 million of state special revenue, is to acquire a data management and customer service system to better serve the needs of the citizens, the design-build community, and the Department of Labor and Industry (DOL). The proposed system would provide business and technical services related to a comprehensive statewide data management and e-permitting system for State Building Codes responsibilities. The Bureau of Building and Measurement Standards (BBMS) establishes and enforces minimum building (including accessibility), plumbing, mechanical, electrical, energy, elevator, and boiler codes used by state and local governments. Additionally, BBMS sets operating standards and provides technical assistance and annual certification to local governments. In addition to the state, there are currently 46 local building departments, known as Certified Local Governments, that issue and track building-related permits and conduct plan reviews and inspections using a variety of manual and technology enabled systems.

Licensing Standard System (COTS System), (DOL)

The primary goal of this project, with a state special revenue request for an appropriation of \$2.3 million, is to acquire a comprehensive system that will track all data from the original application to the issuance of the license and provide additional services via e-government. This request proposes a system that would provide the

licensing bureaus (Business and Occupational Licensing and the Health Care Licensing) with a comprehensive data management and e-government licensing system for the 39 boards/programs and the approximately 150 license types. In response to this identified requirement, the Business Standards Division (BSD) has initiated a process of conducting an internal business process analysis and system requirement evaluation to provide business and technical services relating to an e-government solution and will be soliciting a request for proposal (RFP). This will provide:

- Requested services to Montana citizens via e-government
- Standardization between the licensing bureaus and among the licensing boards/programs
- Cross training for staff among the various boards and programs
- Use of licensing staff more efficiently within the license renewal cycles of boards and programs
- Technology upgrades to gain efficiencies within the WEB based architecture

Unemployment Insurance – UI Tax Modernization, (DOL)

This request would enhance the current UI Tax mainframe system; build a new custom system; and integrate with the Montana Integrated System to Improve Customer Service (MISTICS) system to meet federal and state unemployment insurance requirements. In addition, the proposal would improve and increase on-line, self-service access for customers and enhance internal security controls. The current UI tax system was revived in FY 2005 when the UI tax program was moved back to the DOL following termination of the POINTS project. The UI tax system is based on dated technology, and computer programmers with the expertise to support the system are difficult to find and demand high wages. The 60th Legislature authorized a feasibility study related to the risks of retaining and maintaining the current UI tax system as well as determining options for building a new system. The DOL is currently in the process of issuing an RFP for the feasibility study. Results from the study should be available by December 2008. The funding proposal includes appropriations of \$1.7 million in state special revenue, \$3.0 million in federal special revenue, and \$15.0 million in special revenue bond proceeds.

LFD ISSUE

Bond Issuance: After the release of the executive budget proposal, the Department of Labor (DOL) informed the Office of Budget and Program Planning (OBPP) that the UI Tax Modernization project may require debt financing, or the issuance of bonds. Upon learning of the need for bond authority, OBPP staff passed the information on to legislative staff. The proposed bonds would be special revenue bonds, implying that service fees and taxes obtained through DOL operations would be used to pay the debt service of the bond. As a result, the LRITP bill will include bond issuance authority of \$15.0 million.

Article VIII, Section 8, of the Constitution states, “No state debt shall be created unless authorized by a two-thirds vote of the members of each house of the legislature or a majority of the electors voting thereon.”

Any debt is considered “state debt” when it is payable in a future budgetary period from revenues derived from the legislature’s exercise of the state’s taxing authority. While the bond issue recommended in the LRITP bill is a state special revenue bond, payable with funds derived through DOL operations, the re-payment funds will nevertheless originate from state imposed fees and taxes. Consequently, this bond issue will represent “state debt” and require a two-thirds vote of each house of the legislature.

The requirement of a super-majority vote, or two-thirds vote, of each house of the legislature creates concerns for the ability of this bill to be passed by the legislative body. As a result, the bill will include the two-thirds vote requirement in a separate section that affects only the authority for the bond issuance. Consequently, should the bill pass with only a majority vote, the bill will be approved but the bonding will not.

The Long-Range Planning Subcommittee may wish to discuss the ramifications of requesting bond issuance in the LRITP bill, given the two-thirds vote requirement. Some options that the Long-Range Planning Subcommittee may consider include:

- Issue the bond authority in a separate “companion” type bill
- Move the entire project, bond authority and appropriation, into a second “LRITP Bonding bill”
- Leave the bill as introduced.

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Note: The 2007 Legislature passed HB 790, which included an increase in unemployment taxes. The new tax has been directed to the financing of the UI Tax Modernization project. The tax generated the funds currently available for the state special funds appropriation of the UI Tax Modernization project. The bond issue is proposed to provide full up-front financing of the new system. Without the bond issue, the project can go forward as soon as the new tax generates sufficient funds. Consequently, the DOL requests that should the bond issue component of the project fail in the legislature, the appropriation remain at the full funding level to enable the project to be funded with the tax revenues

MMIS Replacement, (DPHHS)

The Department of Public Health and Human Services (DPHHS) requests funding to replace the current Medicaid Management Information System (MMIS) with a new system using updated technology. The funding proposal would include appropriations of \$3.5 million in LRITP capital project funds and \$62.0 million in federal special revenue funds. The current MMIS system is mainframe CICS/VSAM and utilizes COBOL legacy language that has been in operation since 1985. The system was previously updated in 1997 and certified by CMS in 1998. Due to the old technology and data integrity of the existing system, the DPHHS believes it is necessary to replace the current MMIS with a system using the most current technology in order to increase the accuracy and timeliness of processing claims.

The MMIS would be enhanced to include new business functionality identified during the Medicaid Information Technology Architecture (MITA) assessment as well as functionality required by federal law. In addition, the vendor would be required to re-engineer the system architecture (enhance maintainability and upgrade data access and storage capability, etc.). The MMIS would be able to support multiple benefit plans including managed care plans, premium payment plans, and multiple fee-for-service plans with different claims adjudication policies. The new MMIS would process all claims for Medicaid, the State Mental Health Services Plan (MHSP), the Developmental Disabilities Program, and the Breast and Cervical Cancer Program. The system will also need to have the flexibility to process claims from other programs that are not listed here. Finally, the system would issue premium payments for the Big Sky Rx and be capable of issuing capitation payments and performing enrollment broker functions to support managed care program administration.

SEARCHS Planning, (DPHHS)

The System for the Enforcement and Recovery of Child Support (SEARCHES) Planning project would provide funding to plan and develop the best course to modernize the current legacy child support system. Preliminary planning is recommended because of the magnitude of the project, with total project costs expected to be approximately \$90 million. This planning project proposes funding appropriations of \$1.5 million, \$0.5 million general fund and \$1.0 million of federal special funds.

The SEARCHES project is intended implement a modern system to replace the current legacy child support enforcement system. The primary objective of SEARCHES replacement is to incorporate all federal and state child support requirements and introduce advanced business functionality (e.g. a business rule engine) in a new system that would employ modern technologies. If the appropriation is approved by the legislature, the future project would include procurement and development services necessary to implement a modern system that fulfills state and federal requirements. The current system does not meet the needs of the users, and many functions are performed manually on spreadsheets outside the system by staff. It is no longer cost effective to attempt to meet future business needs through system enhancement. Changes necessary to meet federal mandates have become increasingly difficult and require more time and cost to complete due to the age of the system and the language it was written in.

Improve Efficiency Through Imaging Technology, (DOR)

The Department of Revenue (DOR), Information Technology and Processing Division requests appropriations of \$3.4 million in LRITP capital project funds and in general funds to implement a data imaging system that would facilitate more efficient handling of paper returns and other documents. The system would improve the DOR

business processes in the areas of compliance, tax processing, and information technology. This imaging technology proposal will create efficiencies that generate \$3.5 million in revenue in the 2011 biennium. The enhanced business efficiencies would improve taxpayer services by speeding up processing and help to provide sound studies and analysis for the executive, the legislature, and the public on tax policy matters.

The proposal will incorporate the use of imaging technology with its current computer systems to enhance and improve the processing of information received in the form of paper documents from the public. This represents the next logical step in the continued implementation of both the Integrated Revenue Information System (IRIS) and the Property Valuation Assessment System (PVAS) by adding imaging and workflow functionality for document handling and storage.

These funds would allow the DOR to purchase document imaging equipment and transition to converting paper information to electronic in a rapid, automated system that captures more tax information than at present. The result will be greater efficiency and speed in processing, faster refunds, and more timely and accurate service to the public. The DOR is responsible for the administration, security, and confidentiality of state tax documentation, in both physical and electronic formats. In transporting physical documents, the risks of disclosure are unnecessarily heightened. Imaging and workflow will greatly enhance the department's ability to protect confidential taxpayer information of both payments and documents. Imaging of documents will also provide improved document disaster recovery. Expenditures are anticipated to be one-time-only with the exception of ongoing costs such as maintenance and support.

LFD COMMENT

New Revenue and Savings: According to the DOR, the Improve Efficiency Through Imaging Technology project will produce \$3.5 million in new revenue in the 2011 biennium. The new revenues will be generated through enhanced compliance activities. Additionally, the project should provide program savings as the new system reduces the time required for DOR employees to manually enter information from paper tax documents. While DOR program savings are expected, the department did not provide information related to the amount of savings that could be achieved with the addition of this new project. The Long-Range Planning Subcommittee may wish to question representatives of the DOR related to the program savings that will be gained in this project.

FUNDING

The total cost of projects in the LRITP in the 2011 biennium is \$100.4 million. Project funding will come from a combination of one-time only (OTO) general funds deposited in the LRITP capital projects fund, state special revenues, federal special revenues, bond proceeds, and general fund. The allocation of project costs across the various funds is shown in Figure 6, and includes:

- \$6.9 million – LRITP Capital Projects Funds (money may not available for these project appropriations)
- \$6.4 million – State Special Revenue
- \$66.0 million – Federal Special Revenue (\$62 million are leveraged with OTO general funds transfers that may not be available the project appropriation)
- \$15.0 million – Bond Issue Proceeds
- \$6.0 million – General Fund

The OTO general fund transfers for two of the projects is \$6.8 million and the funds would be transferred to the LRITP capital projects fund, if the general fund balance is greater than \$300 million. Proposed general fund transfers along with the direct general funds appropriations are detailed in Figure 7, titled “General Fund Summary”. If projects are defined as “capital projects”, the appropriation authority will continue until the project is completed. Included in Figure 7 are the proposed amounts of general fund OTO transfers by fiscal year, the general fund OTO appropriations, and a breakout of expected future operational costs.

Long-Range Information Technology Program					
General Fund Summary: Proposed General Fund OTO Transfers and Appropriations					
Program	OTO Transfers		General Fund OTO Appropriations		Future New Program Costs
	FY 2010	FY 2011	FY 2010	FY 2011	Biennial
General Fund Transfers to the LRITP Capital Projects Fund					
MMIS Replacement	\$1,750,000	\$1,750,000			
*Improve Efficiency Through Imaging Technology	<u>1,680,000</u>	<u>1,680,000</u>			unknown
Total General Fund OTO Transfers:	<u>\$3,430,000</u>	<u>\$3,430,000</u>			
Direct General Fund Appropriations					
*Interoperability Montana (IM) Matching Funds			\$2,000,000	\$0	unknown
Governor's GIS Challenge ®			0	0	
ESSC Relocation and Equipment			3,500,000	0	
SEARCHES Planning			<u>500,000</u>	<u>0</u>	
Total General Fund OTO Appropriations:			<u>\$6,000,000</u>	<u>\$0</u>	
Future Costs					
Building Standards System					\$250,000
Licensing Standard System					<u>500,000</u>
Total New Operational Costs:					<u>\$750,000</u>

* There may be future operational costs associated with these projects

Figure 7

LFD COMMENT

Transfer Contingency: As was the case in the 2009 LRITP budget, the 2011 biennium transfers of one-time only general fund monies would be conditioned, or “triggered”, on the size of the fund balance in the general fund. Information provided in the executive budget states that one-time only transfers would be contingent on an ending fund balance in the general fund of at least \$300 million, after consideration of the transfers. The 61st Legislature must keep in mind that should revenues not materialize as anticipated and transfers are reduced, the LRITP would be not have sufficient funds for all the projects. Because these projects are capital projects with appropriation authority that continues until the project is completed, a reduction of the planned transfers would either require new changes in project funding in future biennia, or future legislatures may need to eliminate appropriations. Additional questions are raised as a result of the contingent nature of the OTO transfers, for example:

- o When would the determination to reduce transfers be made, and by whom?
- o How will the reductions be made, pro-rata or whatever the executive believes is appropriate?
- o If the fund balance drops below \$300 million, will the transfers be totally eliminated?

From a legislative perspective, the contingent nature of the OTO transfers is not good fiscal policy. If sufficient funds are not available to fund projects, the project appropriations should be eliminated. The legislature should not be delegating transfer authority to the executive without specific criteria specified in law. These guidelines should be designed to outline the directives the legislature wants to be followed. The Long-Range Planning subcommittee may wish discuss the transfer contingency in more detail.

Executive Budget Revisions: In the Dec. 15, 2008 executive budget revision, the “trigger” for transfer reductions to the LRITP was increased from \$125 million to \$300 million. Because of the current point-in-time estimates of the general fund balance and according to the general fund balance sheet produced by the executive on Dec. 15, 2008, only the general fund appropriations for the LRITP would be funded in the 2011 biennium, and there would not be any OTO general fund transfers to the LRITP. As a result, there is not expected to be adequate funds for the Department of Revenue project, “Improve Efficiency Through Imaging Technology” or the Department of Health and Human Services “MMIS” project appropriations.

The two projects that would only be funded if the general fund balance is estimated to be greater than \$300 million would cost \$6.9 million. The MMIS project would leverage \$62.0 million in federal funds. The Improve Efficiency Through Imaging project would provide new state revenues of \$3.5 million.

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Over Appropriation: Because the \$300 million “trigger”, which initiates transfer reductions of the general fund to the LRITP has already been met, and there may not be general fund OTO transfers to the LRITP capital project fund in the 2011 biennium. As a result, the revenue available for LRITP projects is expected to be \$94.4 million, while appropriations recommended for the budget are \$100.3 million. Consequently, appropriations exceed anticipated revenue. According to the Montana Constitution, Article VIII, Section 9, *appropriations by the legislature shall not exceed anticipated revenue*. After review of the LRITP budget, the Long-Range Planning Subcommittee may be required to adjust the total appropriations to agree with the anticipated revenues.

TREASURE STATE ENDOWMENT PROGRAM

PROGRAM DESCRIPTION

The Treasure State Endowment Program (TSEP) is a state infrastructure-financing program approved by Montana voters with the passage of Legislative Referendum 110 in June 1992. Grant funding for the program is derived from the investment earnings of the Treasure State Endowment trust. According to 90-6-702, MCA, the purpose of TSEP is to assist local governments in funding infrastructure projects that will:

- Create jobs for Montana residents
- Promote economic growth in Montana by helping to finance the necessary infrastructure
- Encourage local public facility improvements
- Create a partnership between the state and local governments to make necessary public projects affordable
- Support long-term, stable economic growth in Montana
- Protect future generations from undue fiscal burdens caused by financing necessary public works
- Coordinate and improve infrastructure financing by federal, state, local government, and private sources
- Enhance the quality of life and protect the health, safety, and welfare of Montana citizens

Infrastructure projects include drinking water systems, wastewater treatment facilities, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, and bridges. The maximum grant award is \$750,000.

Eligible applicants include cities, towns, counties, tribal governments, consolidated local governments, county or multi-county water, sewer or solid waste districts, and other authorities as defined in 75-6-304, MCA. TSEP applications are submitted to the Department of Commerce (DOC) on a biennial basis where they are evaluated according to seven statutory priorities. The seven statutory priorities focus on projects that:

- Solve urgent and serious public health or safety problems or that enable local governments to meet state or federal health or safety standards
- Reflect greater need for financial assistance than other projects
- Incorporate appropriate, cost-effective technical design and provide thorough, long-term solutions to community public facility needs
- Reflect substantial past efforts to ensure sound, effective, long-term planning and management of public facilities and that attempt to resolve the infrastructure problem with local resources
- Enable local governments to obtain funds from sources other than TSEP
- Provide long-term, full-time job opportunities for Montanans, provide public facilities necessary for the expansion of a business that has a high potential for financial success, or maintain the tax base or encourage expansion of the tax base
- Are high local priorities and have strong community support

In FY 2008, DOC made some significant changes to the TSEP application guidelines. The modifications included changes in target-rate calculations, per-household benefits, and scoring criteria, and adoption of a minimum score requirement (2,700). With the changes, the application guidelines now include deadlines that define how quickly local governments must meet the start-up conditions to receive their grants and how quickly local governments must act to procure an engineer when awarded a preliminary engineering grant (see comment below). To obtain more information on the changes to the application guidelines, refer to the *TSEP Application Guidelines*, which can be found on the Department of Commerce internet site.

LFD COMMENT

Deadlines: In past years, local governments have had an unlimited amount of time to meet the program provisions, or "start-up" conditions, for their authorized TSEP grants. There have been only a few cases where local governments were unable to meet the start-up conditions in a timely fashion. In HB 512 passed by the 60th Legislature, given the potential need of the TSEP to borrow money from the Board of Investments to fund all authorized grants, language was added to the TSEP appropriation bill which instituted a deadline for meeting the start-up conditions. The deadline caused much consternation for local governments, who feared they would not be able to meet the deadline. Now, DOC has informed applicants that they will propose a deadline for meeting start-up conditions in the 2009 version of the TSEP bill (HB 11). The Long-Range Planning Subcommittee may wish to discuss the potential ramifications of this new condition.

The DOC administers TSEP and makes recommendations for grant awards to the executive. The executive makes funding recommendations to the Montana legislature. The legislature makes the final decisions on the award of TSEP funds. Grants have been the primary use of TSEP funding awarded since program inception.

Figure 8 provides a historic perspective of the Treasure State Endowment Trust. Currently, the endowment trust has a balance that approaches \$183.8 million, and by the end of the 2011 biennium, the trust is expected to grow to \$207.2 million. From FY 1995 through FY 2009, the trust has provided \$95.7 million in interest earnings for the TSEP, and is expected to generate another \$20.9 million in the 2011 biennium. In the 2001 biennium,

interest earnings were supplemented with an appropriation of \$3 million state general fund moneys to fund the total grant appropriations. For the 2009 biennium, the legislature provided an appropriation of \$17.6 million in borrowed funds to fund all the recommended local government grants. From 1995 biennium through the 2009 biennium, 252 grants have been authorized to receive grants, and from the 1995 biennium through the 2007 biennium*, the average number of grants authorized per biennium has grown by 12.2 percent.

Prior to FY 2006, TSEP loans were available to qualified applicants. However, only eight loans were authorized by the legislature in the first three funding cycles because of the high interest rates associated with the loans. None of the successful applicants opted to secure a TSEP loan. At the request of DOC, the Fifty-ninth Legislature eliminated the TSEP loan program.

*This figure was not calculated through the 2009 biennium due to the appropriation of borrowed funds to support authorized projects.

EXECUTIVE RECOMMENDATION

Figure 9 provides a list of the executive TSEP recommendations for the 2011 biennium. The DOC received 65 applications for TSEP grants requesting \$33.8 million for the 2011 biennium. The executive budget recommends appropriation of all the estimated TSEP trust earnings for program administration, projects, and expected debt service costs, which the executive budget estimates at \$21.7 million in the 2011 biennium. Total appropriations included in the TSEP projects bill, typically designated HB 11, are recommended at \$16.9 million. Administrative expenses are appropriated in the general appropriations act (HB 2) and debt service is statutorily appropriated. The executive budget recommends an appropriation of TSEP funds for the first 36 projects shown in Figure 9. The projects in Figure 9 are listed in order of priority, with several projects earning a tied priority ranking. The TSEP bill typically includes the authorization of three projects whose funding would exceed the biennial interest projections and are dependent on higher than expected interest earnings.

Treasure State Endowment Program Trust and Appropriation Statistics by Biennia							
	TSE Trust	Trust	Percent	Number	Number	Grants	Loans
Bien	Balance ¹	Earnings	Change	Grants	Loans	Authorized	Authorized
A 1995	\$31,793,125	\$2,738,847		20	4	\$3,966,000	\$168,000
A 1997	52,210,048	6,370,406	132.59%	15	0	4,991,029	
A 1999	68,334,808	9,022,963	41.64%	22	4	9,111,292	1,905,000
A 2001	92,182,012	10,924,899	21.08%	28	0	11,431,612	
A 2003	120,337,392	13,979,908	27.96%	31	0	13,672,060	
A 2005	138,169,251	16,356,156	17.00%	40	0	15,653,331	
A 2007	162,199,736	17,103,521	4.57%	40	0	15,968,253	
F 2009	183,815,257	18,533,062	8.36%	56	0	32,631,715 ²	
F 2011	207,226,257	20,927,525	12.92%	33	0	15,858,709 ³	
¹ Biennium End							
² Does not include a grant of \$2.2 million to DNRC, RRGL program							
³ Executive proposal							

Figure 8

Treasure State Endowment Grants (TSEP) 2011 Biennium					
Rank	Applicant	Project Type	Grant Requested	Grant Recommended	Cumulative Total
1	X Philipsburg, Town of	Wastewater	\$750,000	\$750,000	\$750,000
2	* Ravalli County	Bridge	137,193	137,193	887,193
3	* Sweet Grass County	Bridge	93,360	93,360	980,553
4	* X Melstone, Town of	Water	625,000	625,000	1,605,553
5	* Fergus County	Bridge	167,200	167,200	1,772,753
6	* Rudyard County W&S District	Wastewater	319,000	319,000	2,091,753
7	* X Cascade, Town of	Water	625,000	625,000	2,716,753
7	* Powell County	Bridge	304,248	304,248	3,021,001
9	* X Wolf Creek Co. W&S District	Wastewater	750,000	750,000	3,771,001
10	X Judith Gap, Town of	Water-Wastewater	750,000	750,000	4,521,001
11	* X Gardiner Park Co. W&S District	Wastewater	358,000	358,000	4,879,001
12	* X Winifred, Town of	Wastewater	500,000	500,000	5,379,001
13	* Beaverhead County	Bridge	290,668	290,668	5,669,669
14	X Sweet Grass Community Co. W&S District	Water	625,000	625,000	6,294,669
15	* X Nashua, Town of	Water	421,300	421,300	6,715,969
16	X Laurel, City of	Water	625,000	625,000	7,340,969
17	* X Homestead Acres W&S District	Water	573,325	573,325	7,914,294
18	* X Crow Tribe	Water-Wastewater	750,000	750,000	8,664,294
19	* Carbon County	Bridge	492,915	492,915	9,157,209
19	* Lewis and Clark County	Bridge	456,628	456,628	9,613,837
21	* Madison County	Bridge	413,203	413,203	10,027,040
22	* X Cut Bank, City of	Water	500,000	500,000	10,527,040
23	* X Broadview, Town of	Water	500,000	500,000	11,027,040
23	* X St. Ignatius, Town of	Water	253,000	253,000	11,280,040
25	* Jefferson County	Bridge	160,690	160,690	11,440,730
25	* Stillwater County	Bridge	292,979	292,979	11,733,709
27	X Wibaux, Town of	Wastewater	500,000	500,000	12,233,709
28	* X Granite County	Solid Waste	197,000	0	12,233,709
29	* X Missoula County (for Seeley Lake)	Wastewater	750,000	0	12,233,709
29	* X Seeley Lake Sewer District	Wastewater	750,000	0	12,233,709
31	* X Bigfork Co. W&S District	Wastewater	750,000	750,000	12,983,709
32	* X Choteau, City of	Wastewater	500,000	500,000	13,483,709
33	* X Valier, Town of	Water	625,000	625,000	14,108,709
34	* Carter Choteau Co. W&S District	Water	750,000	750,000	14,858,709
35	* X Hardin, City of	Wastewater	500,000	500,000	15,358,709
36	X Upper & Lower River Rd W&S District	Water-Wastewater	500,000	500,000	15,858,709
Projects below this line are recommended only with available funding					
37	* X Gildford Co. W&S District	Wastewater	538,000	538,000	16,396,709
38	X Big Sandy, Town of	Wastewater	500,000	500,000	16,896,709
38	X Ronan, City of	Water	750,000	750,000	17,646,709
40	* X Dutton, Town of	Wastewater	500,000	500,000	18,146,709
41	* Blaine County	Bridge	384,160	384,160	18,530,869
42	* X Loma County W&S District	Water	750,000	750,000	19,280,869
43	X Harlowton, Town of	Water	500,000	500,000	19,780,869
44	X Kevin, Town of	Water	500,000	500,000	20,280,869
45	X Flathead County for Bigfork	Stormwater	625,000	625,000	20,905,869
46	* X Woods Bay Homesites W&S District	Wastewater	730,000	730,000	21,635,869
47	* X Shelby, City of	Wastewater	750,000	625,000	22,260,869
48	* X Whitefish, City of	Wastewater	500,000	500,000	22,760,869
49	* X Eureka, Town of	Water	625,000	625,000	23,385,869
49	X Troy, City of	Water	750,000	715,000	24,100,869
51	* X Fallon Co. North Baker W&S District	Wastewater	500,000	120,000	24,220,869
52	X Sheaver's Creek W&S District	Wastewater	600,000	600,000	24,820,869
53	Yellowstone County	Bridge	228,753	228,753	25,049,622
54	* X Gore Hill Co. Water District	Water	250,300	250,300	25,299,922
55	X South Chester County Water District	Water	131,000	0	25,299,922
Sub-Total:			\$27,667,922	\$25,299,922	

Figure 9 (continued on next page)

Treasure State Endowment Grants (TSEP) 2011 Biennium					
Rank	Applicant	Project Type	Grant Requested	Grant Recommended	Cumulative Total
		Balance:	\$27,667,922	\$25,299,922	
56	* X Livingston, City of	Solid Waste	500,000	500,000	\$25,799,922
57	* Flathead Co. Water District #8 (Happy Valley)	Water	500,000	500,000	26,299,922
58	X Bynum/Teton Co. W&S District	Water	567,000	567,000	26,866,922
59	Bozeman, City of	Wastewater	750,000	750,000	27,616,922
60	X Fort Smith W&S District	Water	500,000	500,000	28,116,922
61	X Jette Meadows W&S District	Water	750,000	750,000	28,866,922
62	X Greater Woods Bay Sewer District	Wastewater	732,000	488,000	29,354,922
Projects below this line are not recommended for funding					
63	* X Em-Kayan Co. W&S District	Water	290,619	0	29,354,922
64	X Stevensville, Town of	Water	750,000	0	29,354,922
65	X Bridger Pines Co. W&S District	Wastewater	750,000	0	29,354,922
Total TSEP Grants Requested/Recommended			\$33,757,541	\$29,354,922	
* Indicates preliminary engineering grant recipients					
X Coordination Indicator / Indicates RRGL Grant Request					

Figure 9 (continued from previous page)

FUNDING

Figure 10 shows the projected grant funds available from the treasure state endowment state special revenue account for the 2011 biennium under present law assumptions. The TSEP account will begin the biennium with a negative beginning fund balance of \$80,153. The negative beginning fund balance of July 1, 2009 results primarily from a reduced interest earnings estimate for FY 2009, as proposed by the Revenue and Transportation Interim Committee in HJR 2.

Total new revenue in the account is estimated at \$20.9 million for the biennium. The 2011 biennium ending fund balance shows two expenditures that are funded from the TSEP account but are appropriated in the general appropriation act (HB 2). First, there is a reduction of \$1.2 million for the administrative costs of the program. The second reduction is for \$56,000, which is proposed for DNRC for assistance in administration of TSEP loan program, which was eliminated in HB 11 in the 2005 session (for more information on this issue, see the LFD issue below). Other expenses, appropriated in the TSEP bill, would include \$100,000 for the emergency grants program and a \$900,000 appropriation for pre-engineering grants. Expenditures also include an estimated statutory appropriation for debt service for a potential loan. The loan may be required to provide funds for all grants as authorized by the 60th Legislature. The proposed debt service cost was not formally included in the executive budget. However, the figure used for the debt service estimate was provided for this analysis by the DOC who obtained the estimate from the Office of Budget and Program Planning. The executive budget did not include any detail related to the potential debt service. Considering the grant awards recommended in the executive budget, \$15.9 million, the TSEP would end the biennium with a negative fund balance of \$853,820.

Treasure State Endowment Fund (02270) Fund Balance Projection 2011 Biennium	
Estimated Beginning Fund Balance (7/01/2011)	(\$80,153)
Revenue Projections ¹	
FY 2010 Investment Earnings	\$9,989,000
FY 2011 Investment Earnings	10,938,000
2011 Biennium Revenues	\$20,927,000
Proposed Expenditures ²	
Administration - Commerce	(\$1,185,958)
Administration - DNRC	(56,000)
Emergency Grants	(100,000)
Preliminary Engineering Grants	(900,000)
Debt Service Expense ³	(3,600,000)
Total Expenditures	(\$5,841,958)
Balance Available for Grants	\$15,004,889
Proposed Grants ²	(15,858,709)
Estimated Ending Fund Balance - (6/30/2011)	(\$853,820)
¹ Based on RTIC estimates	
² Based on executive budget proposal	
³ Not detailed in executive budget, assumptions are not known	

Figure 10

**LFD
ISSUE**

Lack of Information on Debt Service: The 60th Legislature appropriated sufficient funding for the 56 grants recommended in the 2009 biennium. The grant awards were contingent on local governments completing all of required “start-up” conditions by June 30, 2009. To fund grants the 60th Legislature appropriated \$17.3 million from the TSEP earnings to fund the \$32.7 million dollars of local government project grants and other appropriations related to program. The legislature also appropriated loan proceeds of up to \$17.5 million from the Board of Investments to meet any grant obligations that would be incurred above the expected interest earnings (including a \$2.2 million grant to the Renewable Resource Grant and Loan Program). The executive budget proposal for the TSEP did not contain any mention of the impending loan that the program will be required to assume to cover the cost of the authorized grants. However, through the analysis of the TSEP program, it was learned that the executive assumed biennial loan payments of \$3.6 million. Unfortunately, no detail behind the calculation of the debt service obligation was shared with the Legislative Fiscal Division. Consequently, there is no way to know if the planned statutory appropriation of \$3.6 million is accurate.

The total TSEP loan authorization passed by the 60th Legislature was \$17.3 million. Calculating a loan amortization for the entire amount authorized, \$17.3 million, at 6 percent interest, for 15 years, the biennial debt service would be \$3.5 million. However, the likelihood of the TSEP program being required to borrow the total amount authorized is low. In the work of the Long-Range Planning Workgroup (LRPwg), a workgroup of the interim Legislative Finance Committee, during the 2007-2008 interim, analysis provided that the debt service obligation for a loan of \$14 million would cost TSEP \$2.9 million per biennium. The LRPwg assumed a \$14 million loan would represent a worst case scenario.

To date, \$19.4 million has been committed to 37 grants authorized by the 60th Legislature. According to TSEP staff, the remaining 19 local governments continue to work to meet the start-up conditions by the end of the 2009 biennium. The \$19.4 million currently promised to grants exceeds the expected interest earnings of the trust, and the TSEP will be required to borrow funds to cover the costs of the grants, and a loan will be required.* The Long-Range Planning Subcommittee will be required to analyze the need for borrowed funds and determine the associated debt service in order to ascertain the funds available for grants in the 2011 biennium.

* The 61st Long-Range Planning Subcommittee/Legislature could choose to fund fewer grants in the 2011 biennium and use all or a portion of the 2011 biennium revenues to fund grants authorized by the 60th Legislature.

**LFD
ISSUE**

Negative Ending Fund Balance: The TSEP is expected to begin the 2011 biennium with a negative ending fund balance, and estimates adopted by the Revenue and Transportation Interim Committee (RTIC) forecast that interest earnings will not adequately fund the number of grants recommended in the executive budget. The negative ending fund balance results from a reduction in estimated interest earnings for FY 2009, coupled with increases related to unexpended administrative costs. According to the Montana Constitution, Article VIII, Section 9, *appropriations by the legislature shall not exceed anticipated revenue*. If the legislature maintains the priority listing provided in the executive budget, full funding will be available for the first 34 funding recommendations shown in Figure 9. After a further review of the TSEP budget (including a thorough review of the loan potential and associated debt service costs), the Long-Range Planning Subcommittee may be required to adjust the total appropriations and the related authorized grants to agree with the anticipated revenues.

**LFD
ISSUE**

DNRC Appropriation: The Fifty-ninth Legislature amended section 90-6-703, MCA to eliminate the TSEP loan program. Previously, loans authorized under the TSEP program would have been issued and administered by the Department of Natural Resources and Conservation (DNRC) in conjunction with loans issued for the Renewable Resource Grants and Loan Program. While eight TSEP loans were authorized by legislatures, four in the 1995 biennium and four in the 1999 biennium, the loans were never consummated. Since the inception of the TSEP, DNRC has been appropriated TSEP interest earnings in excess of \$450,000 to cover costs associated with loan issuance and administration. Since the elimination of the TSEP loan program, there is no longer a financial justification for the transfer of TSEP funds in support of the DNRC loan program. The 60th Legislature's Long-Range Planning Subcommittee informally requested that the Natural Resources Subcommittee eliminate the appropriation. Unfortunately, the appropriation of TSEP funds was not eliminated from the general appropriations act. As shown in the fund balance projection table above, the executive budget once again recommends a \$56,000 appropriation to the DNRC in the general appropriations act (HB 2) for loan administration for the 2011 biennium.

Options:

- 1) The LRP Subcommittee could formally request that the Natural Resources Subcommittee remove the appropriation of TSEP funds to the DNRC in the general appropriations act.
- 2) The LRP Subcommittee could take no action.

TREASURE STATE ENDOWMENT REGIONAL WATER SYSTEM

PROGRAM DESCRIPTION

The 1999 Legislature created the treasure state endowment regional water system fund as a new sub-trust within the coal tax permanent trust. The Treasure State Endowment Program Regional Water System (TSEPRW), established in 90-6-715, MCA, was created to:

“...finance regional drinking water systems that supply water to large geographical areas and serve multiple local governments, such as projects in north central Montana, from the waters of the Tiber reservoir, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of Havre, north of Dutton, and east of Cut Bank and in northeastern Montana, from the waters of the Missouri River, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of the North Dakota border, north of the Missouri River, and east of range 39.”

Two projects that have received federal authorization and now qualify for a match of federal funding are the Fort Peck Indian Reservation/Dry Prairie Regional Water System (Fort Peck/Dry Prairie) and the Rocky Boy's Indian Reservation/North Central Montana Regional Water System (Rocky Boy's/NC Montana). The federal government estimates total project costs for Fort Peck/Dry Prairie at approximately \$252 million (as adjusted for inflation) and the Rocky Boy's/NC Montana at approximately \$329 million (as adjusted for inflation). The costs include a nonfederal (state and local) match of over \$21 million for the Dry Prairie project and in excess of \$36 million for the NC Montana project. The federal government match for each regional water project local dollar is between \$9 and \$12. The local match is split evenly between the state and the local regional water authority, unless hardship is proved. In cases of hardship, the split is 75 percent for the state and 25 percent for the regional water authority.

A third project, the Dry-Redwater Regional Water System, would bring water to portions of Garfield, McCone, Richland, Prairie, and Dawson counties. The Dry-Redwater Regional Water Authority was established in FY 2006. A project feasibility study was completed in FY 2007. Engineering estimates of the cost of this system, including a surface water treatment plant and water delivery system, exceed \$110 million. Legislation to authorize the project in the U.S. Congress is currently pending, with re-introduction by Sen. Baucus expected early in 2009.

A fourth project, the Musselshell-Judith Regional Water System (Central Montana Regional Water Authority), has not qualified for federal funding, but it has received program approval from the state. The project received status as a regional water authority early in FY 2006. The system would serve over a dozen communities along the Judith and Lower Musselshell Rivers, at a total estimated cost of \$80 million to \$90 million, with groundwater wells as the source of the water.

The program is administered by the Department of Natural Resources and Conservation (DNRC). Construction of the TSEPRW projects began in the 2005 biennium. TSEPRW construction funds appropriated in the 2003 session provided the first match to federal dollars for regional water projects. The cost of program administration is recommended in the general appropriations act, HB 2.

EXECUTIVE RECOMMENDATIONS

NOTE: The Legislative Fiscal Division analysis of the TSERW budget has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for the TSERW was reduced by \$4.0 million, which would eliminate the planned general fund one-time only transfer to the TSERW.

The executive budget did not contain a recommendation for funding of TSEPRW project costs. DNRC administrative costs of \$1.4 million are recommended in the general appropriations act, HB 2, but no mention of an appropriation of interest earnings was included in the executive budget.

FUNDING

Since July 1, 1999, 12.5 percent of the coal severance tax revenues have flowed into the TSEPRW trust fund. The current principal balance in the TSEPRWS trust is \$49.4 million and is expected to grow to \$61.1 million by the end of the 2011 biennium. The interest earned from the fund is transferred into the account authorized in Title 90, Section 6, part 7, MCA, to provide a match for federal and local monies for the purpose of developing large water systems.

Figure 11 shows the fund balance calculation for the TSEPRW account for the 2011 biennium. The beginning fund balance consists of unexpended interest earnings from the 2009 biennium. The 60th Legislature appropriated \$6.7 million from the TSEPRW trust interest for regional water projects and expected that debt service related to a possible bond issue would cost \$126,705. To date, there has been no expenditure of interest earnings for regional water projects in the 2009 biennium, but the DNRC expects to enter into three contracts totaling \$3.3 million in FY 2009. The remaining appropriation will revert at the end of the biennium, and the related funds will be available for new appropriations in the 2011 biennium. No bonds will be issued in the 2009 biennium for regional water projects, so funds assumed to be required for debt service will also be available for new appropriations.

The trust earnings are expected to be \$5.8 million in the 2011 biennium. Statutorily, the interest earnings of the trust may be used to fund the administrative expenses for the program, and the executive recommendation proposes an administrative appropriation of \$1.4 million for the 2011 biennium, which will be appropriated in the general appropriation act (HB 2). All remaining funds, \$7.5 million, are available for appropriation in the TSEP bill for funding regional water construction projects.

TSEP Regional Water System Fund (02015) Fund Balance Projection 2011 Biennium	
Estimated Beginning Fund Balance (7/1/2009)	\$3,067,623
Revenue Projections ¹	
2010 Investment Earnings	\$2,690,000
2011 Investment Earnings	<u>3,136,000</u>
2011 Biennium Revenues	\$5,826,000
Proposed OTO General Fund Transfer ³	\$0
Proposed Expenditures ²	
Administration - DNRC	(\$1,424,586)
Total Funds Available For Projects	<u>\$7,469,037</u>
¹ Based on RTIC estimates	
² Based on executive budget proposal	
³ Eliminated in the Dec. 15, 2008 executive budget revisions	

Figure 11

LFD COMMENT

Outstanding Bond Issue Authority: In addition to the interest earnings and general fund transfer, the TSEPRW program has appropriations for an authorized of \$22.2 million of bond proceeds. The 60th Legislature authorized and provided appropriations for a \$17.2 million bond issue in the 2007 version of HB 8. The 59th Legislature authorized and provided appropriations for a \$5.0 million bond issue in HB 748 during the 2005 legislative session. At this point, no bonds have been issued for the TSEPRW program, and according to DNRC, there is no plan to issue bonds for the Regional Water Systems. Should bonds be issued, the annual debt service on \$22.2 million, given an interest rate of 6.0 percent and an expected life of 15 years, would be approximately \$2.2 million annually, or \$4.5 million per biennium. The Long-Range Planning Subcommittee may wish to discuss the current authority with representatives of the DNRC.

LFD ISSUE

Omitted Recommendation: For the third time in as many biennia, the executive budget recommendation did not include an appropriation for TSEPRW project funding. While there was no budget presentation for TSEPRW projects, the "Financial Overview" provided in the front of the executive budget shows a general fund OTO transfer of \$4 million to the TSEPRW state special fund. The OTO transfer was eliminated in the Dec. 15, 2008 executive budget reductions. The 61st Legislature will be required to add an appropriation to the budget before any construction can take place in the 2011 biennium.

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

PROGRAM DESCRIPTION

Resource Indemnity Trust (RIT) investment earnings are a major source of revenue for several natural resource agencies and programs, including: 1) the Renewable Resource Grants and Loan Program (RRGL); and 2) the Reclamation and Development Grants Program (RDGP). The Board of Investments invests funds deposited in the RIT and some of the investment earnings are used to fund the RRGL and RDGP. For more detailed information on the allocation and expenditure of other RIGWA proceeds and RIT interest earnings, see the Department of Natural Resources and Conservation (DNRC) summary in Section C of the Legislative Fiscal Division Budget Analysis, Volume 5.

The Renewable Resource Grants and Loan (RRGL) program was created by the 1993 Legislature. This program combines the former Renewable Resource Development Program, established in 1975, and the Water Development Program, established in 1981. As outlined under Title 85, Chapter 1, part 6, MCA, the purpose of the RRGL is to fund projects that “enhance Montana's renewable resources through projects that measurably conserve, develop, manage, or preserve resources.”

The DNRC administers the RRGL program, which involves a biennial application process. DNRC and a technical review team initially evaluate each application for economic and technical feasibility, as well as to ensure that proposed projects are located in Montana. Qualifying applications are then examined according to six criteria:

- Financial feasibility
- Adverse environmental impact
- Technical merit
- Public benefit
- Need
- Urgency

DNRC submits a list of funding recommendations to the Governor, who reviews the list and submits recommendations to the legislature. Funding for projects comes in the form of grants (\$100,000 maximum) and/or loans. Eligible applicants include, but are not limited to:

- A department, agency, board, commission, or other division of state government
- A city, county, or other political subdivision or local government body of the state
- A tribal government

The legislature has final approval for the awarding of RRGL grants and loans.

EXECUTIVE RECOMMENDATION

RRGL Grants

Figure 12 shows a priority listing of the RRGL grants recommended by the executive for the 2011 biennium. DNRC received a total of 92 grant applications. The RRGL grant bill, typically designated HB 6, is expected to include a list of 89 projects that have the recommendation of DNRC. The executive recommendation would provide an appropriation of \$5.1 million, or enough to fund the first 52 project applications. The executive recommendation also recommends appropriations for \$100,000 to fund the DNRC emergency grant program, \$800,000 for project planning grants (double the amount of past appropriations), \$300,000 for irrigation development grants, and \$50,000 for private grants. Total appropriations for the RRGL program are \$6.3 million.

Renewable Resource Grants (RRGL) 2011 Biennium					
Rank	Applicant	Grant Requested	Grant Recommended	Cumulative Total	Loan Recommended
1	X Dutton, Town of Dutton WW System Improvements	\$100,000	\$100,000	\$100,000	
2	* X Philipsburg, Town of Philipsburg WW System Improvements	100,000	100,000	200,000	
3	X Upper Lower River Road WSD Upper Lower River Road Phase 3 Water & Wastewater Improvements	100,000	100,000	300,000	
4	Fork Peck Tribes Fort Peck Tribes lateral L-56 Rehab Project	100,000	100,000	400,000	
5	* Bitter Root Irrigation District Bitter Root Irrigation District Siphon 1:Phase 1	100,000	100,000	500,000	\$473,000
6	Milk River Irrigation Project Milk River system-wide Geolrrigaton Mapping Project	65,004	65,004	565,004	
7	* X Big Sandy, Town of Big Sandy WW Improvement Project	100,000	100,000	665,004	
8	Beaverhead CD Big Hole Spring Creek Kalsta Spring Creek WQ Enhancement	97,485	97,485	762,489	
9	DNRC- Water Resources Div Ruby Dam Rehabilitation Project	100,000	100,000	862,489	2,000,000
10	X Nashua, Town of Nashua Water System Improvements	100,000	100,000	962,489	
11	* Hysham ID Pump Station Electrical Improvements Project	100,000	100,000	1,062,489	
12	Yellowstone County West Billings Flood control and Groundwater Recharge Study	100,000	100,000	1,162,489	
13	* Clinton Irrigation District Main Canal Rehabilitation Project	99,610	99,610	1,262,099	
14	X Hardin, City of Hardin WW System Improvements	100,000	100,000	1,362,099	
15	* Lewistown, City of Lewistown WW System Improvements	100,000	100,000	1,462,099	
16	* X Winifred, Town of Winifred WW System Improvements	100,000	100,000	1,562,099	
17	X Gildford County WSD Gildford WW System Improvements	100,000	100,000	1,662,099	
18	X Melstone, Town of Melstone Water System Improvements	100,000	100,000	1,762,099	
19	Hysham ID SDSS Flow Monitoring/Data Transfer Project	100,000	100,000	1,862,099	
20	X Choteau, City of Choteau WW System Improvements	100,000	100,000	1,962,099	
21	* X Wolf Creek County WSD Wolf Creek WW System Improvements	100,000	100,000	2,062,099	
22	Lower Musselshell CD Lost Horse Creek Siphon Pipeline Rehabilitation	100,000	100,000	2,162,099	
23	X Whitefish, City of Whitefish WW System Improvements	100,000	100,000	2,262,099	
24	X Gardiner-Park County WSD Gardiner WW System Improvements	100,000	100,000	2,362,099	
25	DNRC- Water Resources Div Twodot Canal Rehabilitation Project	100,000	100,000	2,462,099	
26	* X Cascade, Town of Cascade Water System Improvements	100,000	100,000	2,562,099	
27	Sweet Grass County CD Post-Kellogg Diversion Structure Infrastructure Rehabilitation	100,000	100,000	2,662,099	
28	X Wibaux, Town of Wibaux WW System Improvements	100,000	100,000	2,762,099	
Sub-Total:		2,762,099	2,762,099		2,473,000

Figure 12 (continued on next page)

Renewable Resource Grants (RRGL) 2011 Biennium						
Rank	Applicant	Grant Requested	Grant Recommended	Cumulative Total	Loan Recommended	
	Balance:	2,762,099	2,762,099		2,473,000	
29	Ravalli County Environmental Health	100,000	100,000	2,862,099		
	Bitterroot Valley Septic Systems Impact Evaluation Model					
30	* X Bynum Teton County WSD	100,000	100,000	2,962,099		
	Bynum Water System Improvements					
31	Lake County	100,000	100,000	3,062,099		
	Lake County LiDAR Mapping Project					
32	Ravalli County	100,000	100,000	3,162,099		
	Ravalli County Phase II LiDAR Mapping					
33	X Judith Gap, Town of	100,000	100,000	3,262,099		
	Judith Gap Water and WW System Improvements					
34	* X Crow Tribe of Indians	100,000	100,000	3,362,099		
	Crow Agency WW System Improvements Phase IIIA					
35	Stevensville, Town of	100,000	100,000	3,462,099		
	Stevensville WW Improvements Project					
36	* X Flathead County	100,000	100,000	3,562,099		
	Bigfork Stormwater System Improvements					
37	* X Kevin, Town of	100,000	100,000	3,662,099		
	Kevin Water System Improvements					
38	X Em-Kayan Village WSD	100,000	100,000	3,762,099		
	Em-Kayan Village Water System Improvements					
39	X Broadview, Town of	100,000	100,000	3,862,099		
	Broadview Water System Improvements					
40	DNRC- Water Resources Div	100,000	100,000	3,962,099		400,000
	Deadman's Basin Terminal Outlet Replacement Project					
41	Big Horn CD	19,486	19,486	3,981,585		
	Water Reservations Efficiencies					
42	DNRC- Water Resources Div	100,000	100,000	4,081,585		
	Martinsdale Reservoir Dam Drain Project					
43	X Loma County WSD	100,000	100,000	4,181,585		
	Loma Water System Improvements					
44	X Woods Bay Homesites WSD	100,000	100,000	4,281,585		
	Woods Bay WW System Improvements					
45	X Sheaver's Creek WSD	100,000	100,000	4,381,585		
	Sheaver's Creek WW System Improvements					
46	* Bozeman, City of	100,000	100,000	4,481,585		
	Hyalite Creek Source Water Protection Barrier Project					
47	X Greater Woods Bay Sewer District	100,000	100,000	4,581,585		
	Greater Woods Bay WW System Improvements					
48	* Virginia City, Town of	100,000	100,000	4,681,585		
	Virginia City WW System Improvements					
49	Helena Valley ID	100,000	100,000	4,781,585		
	HVID Main Canal Lining Project					
50	Flathead County	89,993	89,993	4,871,578		
	Flathead Regional Wastewater Management Group					
51	X North Baker WSD	100,000	100,000	4,971,578		
	North Baker WW System Improvements					
52	X Valier, Town of	100,000	100,000	5,071,578		
	Valier Water System Improvements					
Projects below this line are recommended only with available funding						
53	Flathead Joint Board of Control	100,000	100,000	5,171,578		
	FJBC Jocko K Canal Lining					
54	Sweet Grass County	80,000	80,000	5,251,578		
	Yellowstone Greycliff Study					
55	X Cut Bank, City of	100,000	100,000	5,351,578		
	Cut Bank Water System Improvements					
Sub-Total:		5,351,578	5,351,578		2,873,000	

Figure 12 (continued on next page)

Renewable Resource Grants (RRGL) 2011 Biennium						
Rank	Applicant		Grant Requested	Grant Recommended	Cumulative Total	Loan Recommended
		Balance:	5,351,578	5,351,578		2,873,000
56	Confederated Salish and Kootenai Tribes Upper Jocko S Lining Project		100,000	100,000	5,451,578	
57	X	St. Ignatius, Town of St. Ignatius Water System Improvements	100,000	100,000	5,551,578	
58		Missoula County Lewis and Clark Subdivision RSID Water System Improvements	100,000	100,000	5,651,578	
59	* X	Bridger Pines County WSD Bridger Pines WW System Improvements	100,000	100,000	5,751,578	
60		Ennis, Town of Ennis Water System Improvements	100,000	100,000	5,851,578	
61	X	Laurel, City of Laurel Water System Improvements	100,000	100,000	5,951,578	
62	X	Fort Smith WSD Fort Smith Water System Improvements	100,000	100,000	6,051,578	
63	X	Troy, City of Troy Water System Improvements	100,000	100,000	6,151,578	
64		DNRC- Water Resources Div Nevada Creek Canal Design and Construction Project	100,000	100,000	6,251,578	
65	* X	Granite County Granite County Solid Waste Improvements	100,000	100,000	6,351,578	
66	X	Harlowton, City of Harlowton Water System Improvements	100,000	100,000	6,451,578	
67	X	Jette Meadows WSD Jette Meadows Water System Improvements	100,000	100,000	6,551,578	
68	X	Homestead Acres County WSD Homestead Acres Water System Improvements	100,000	100,000	6,651,578	
69	* X	South Chester Water District South Chester Water System Improvements	100,000	100,000	6,751,578	
70	X	Bigfork WSD Bigfork WW System Improvements	100,000	100,000	6,851,578	
71		Greenacres County WSD Greenacres Water System Improvements	100,000	100,000	6,951,578	
72	X	Livingston, City of Livingston Anaerobic Digester Improvements and Composting	100,000	100,000	7,051,578	
73	* X	Eureka, Town of Eureka Water System Improvements	100,000	100,000	7,151,578	
74	*	Manhattan, Town of Manhattan Water System Improvements	100,000	100,000	7,251,578	
75	* X	Stevensville, Town of Stevensville Water System Improvements	100,000	100,000	7,351,578	
76		Buffalo Rapids Project District II Conversion of laterals 2.9/7.6 to Pipeline	100,000	100,000	7,451,578	
77		Flathead Basin Commission Mapping the Impacts of Septic Systems: A Shallow GW Study	100,000	100,000	7,551,578	
78	*	Daly Ditches ID Hedge Canal Diversion Dam Replacement	100,000	100,000	7,651,578	
79		Fort Shaw Irrigation District Water Quality and Quantity Improvement	100,000	100,000	7,751,578	
80	*	East Bench Irrigation District EBID Sweetwater Seepage Area Canal Lining	100,000	100,000	7,851,578	
81		MSU Montana Watercourse Watershed Education for Real Estate Agents	19,333	19,333	7,870,911	
82	* X	Shelby, City of Shelby WW System Improvements	100,000	100,000	7,970,911	
83		Buffalo Rapids Project District II Increasing Pump Discharge Line Efficiency: Phase II	100,000	100,000	8,070,911	
Sub-Total:			8,070,911	8,070,911		2,873,000

Figure 12 (continued on next page)

Renewable Resource Grants (RRGL)						
2011 Biennium						
Rank	Applicant		Grant Requested	Grant Recommended	Cumulative Total	Loan Recommended
		Balance:	8,070,911	8,070,911		2,873,000
84	X	Sweet Grass County WSD	100,000	100,000	8,170,911	
		Sweet Grass Water System Improvements				
85	X	Gore Hill County Water District	100,000	100,000	8,270,911	
		Gore Hill Water System Improvements				
86		Whitefish County WSD	70,000	70,000	8,340,911	
		Investigation of Septic Leachate to Littoral Areas of Whitefish Lake				
87		Richland County CD	100,000	100,000	8,440,911	
		Lower Yellowstone GW Reservation				
88		MSU Montana Water Center	99,462	99,462	8,540,373	
		Decisionmaker's Guide To Montana's Water				
89		Ronan, City of	100,000	100,000	8,640,373	
		Ronan Water System Improvements				
Projects below this line are not recommended for funding						
		City of Missoula	79,310	0	8,640,373	
		Fort Missoula/Bitterroot River Bank Stabilization Design Project				
		Garfield County CD	100,000	0	8,640,373	
		Mosby Musselshell Watershed Group Water Storage Project				
		Greenfields Irrigation District	100,000	0	8,640,373	
		Pishkun Enlargement Study				
Total RRGL Grants Requested/Recommended			<u>\$8,819,683</u>	<u>\$8,640,373</u>		<u>\$2,873,000</u>
* Indicates project planning grant recipients						
X Coordination Indicator / Indicates TSEP Grant Request						

Figure 12 (continued from previous page)

**LFD
COMMENT**

Other Program Appropriations: The executive budget includes appropriation recommendations for two distinct programs that will be included in the RRGL bill.

The executive budget recommends an appropriation of \$300,000 for the irrigation development grants program. This program, offering grants at a maximum of \$15,000, provides funding for projects that lead to the development of new irrigation projects and activities that increase the value of agriculture for existing irrigated lands. The recommended appropriation would fund at least 20 grants.

The executive budget also recommends an appropriation of \$50,000 for a renewable resource private grant program. In this program, funding is targeted to assist small privately owned water systems. Funds will assist the owners of small systems to meet the Safe Drinking Water Act regulations and other water system requirements. Feasibility studies, research, and/or public information projects would not be recommended for funding in this program. Grants to private entities are limited to 25 percent of the project cost or \$5,000, whichever is less. This appropriation would fund at least 10 private water grants.

FUNDING

The funding methodology for both the RRGL and RDGP programs was changed by the 60th Legislature in HB 116. Now both programs are funded through one combined fund, titled the "natural resource projects fund". For information related to the funding of the RRGL project, see "Funding: Natural Resource Projects Account" located on page F-38.

RRGL Loans

A second RRGL bill, typically designated HB 8, will authorize the issuance of coal severance tax bonds to finance RRGL project loans. Proceeds from the issuance of bonds are used to fund the loans, with loan repayments used to pay the debt service. Loans have differing interest rates based on the borrower's financial capacity for loan repayment. The interest payments on some of the bonds are subsidized with earnings from the

coal severance tax bond fund. Because these are general obligation bonds, they constitute state debt that requires a two-thirds vote of the members of each house. Moreover, because money from the coal severance tax bond fund is pledged for debt service payments on the bonds, the RRGL loan/bond bill will also require a three-fourths vote of the members of each house, as directed by the Montana Constitution.

EXECUTIVE RECOMMENDATION

The executive budget recommendation contains a request for loans under the RRGL that total \$2.9 million in new requests, but the DNRC will request total bond authority of \$9.6 million in the RRGL loan/bond bill. The details, as proposed for the drafting of HB 8, include new loan authorizations of \$2.9 million and loan re-authorizations of \$2.0 million. Additional DNRC recommendations include \$3.5 for loans to grant projects that may not have completed the requirements to obtain a grant by the deadline of June 30, 2007, and an additional amount of \$1.3 million to establish a reserve for the bonds.

Renewable Resource Loans 2011 Biennium		
Loans-Sponsor/Project	Loan Recommendation	Cumulative Total
Section 1¹		
Subsection (2) Projects (4.5% or State bond rate, whichever is lower-20 years)		
Bitter Root Irrigation District		
Siphon 1: Phase 1	\$473,000	\$473,000
Montana Department of Natural Resources and Conservation		
Ruby Dam Rehabilitation Project	2,000,000	2,473,000
Montana Department of Natural Resources and Conservation		
Deadman's Basin Terminal Outlet Replacement Project	400,000	2,873,000
Section 2²		
Subsection (2) Projects (4.5% or State bond rate, whichever is lower-20 years)		
Mill Creek Irrigation District		
Mill Lake Dam Rehabilitation	572,000	3,445,000
Subsection (3) Projects (4.5% or State bond rate, whichever is lower-30 years)		
Sunset Irrigation District		
Gravity Flow Irrigation Pipelines	<u>1,465,266</u>	4,910,266
Total Loan Authorizations:	\$4,910,266	
Additional Loan Authorizations ³ :	3,468,795	
Loan Reserve:	<u>1,256,859</u>	
Total Bond Request	<u>\$9,635,920</u>	
¹ Section 1 are new loans that meet the provisions of 17-5-702, MCA. ² Section 2 are loans to be reauthorized ³ To finance loans in lieu of grants for grants recommended in the RRGL program NOTE: Projects are grouped by differences in loan circumstances and interest rates.		

Figure 13

The RRGL loan/bond bill would authorize the Board of Examiners to issue coal severance tax bonds in the amount of \$9.6 million, which would be appropriated to the Department of Natural Resources for financing the projects identified in the bill. The DNRC loan recommendations for the 2011 biennium are included in Figure 13. The repayments of the loans financed with coal severance tax bonds are used to pay the debt service. Because the loans authorized in the RRGL loan/bond bill are sometimes offered at reduced rates, coal severance tax revenues subsidize these reduced rates. Consequently, less principal is invested in the Treasure State Endowment Fund, the Treasure State Endowment Regional Water System Fund, and the Economic Development Trust. As a result, the trust receives reduced interest earnings.

FUNDING - LOANS

RRGL program bond authority is provided in 85-1-624, MCA. Money in the coal severance tax bond fund is pledged for the payment of the principal and interest of the bond issue requested in RRGL loan/bond bill, as directed in Title 17, Chapter 5, part 7, MCA.

NOTE:

Bonds authorized in RRGL loan/bond bill are general obligation bonds, constituting a state debt and requiring a two-thirds vote of the members of each house of the legislature. Furthermore, the coal severance tax bond fund is pledged for debt service payments on the bonds, requiring a three-fourths vote of the members of each house as mandated by the Montana Constitution.

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

PROGRAM DESCRIPTION

Resource Indemnity Trust (RIT) investment earnings are a major source of revenue for several natural resource agencies and programs, including: 1) the Renewable Resource Grants and Loan Program (RRGL); and 2) the Reclamation and Development Grants Program (RDGP). The Board of Investments invests funds deposited in the RIT and some of the investment earnings are used to fund the RRGL and RDGP. For more detailed information on the allocation and expenditure of other RIGWA proceeds and RIT interest earnings, see the Department of Natural Resources and Conservation (DNRC) summary in Section C of the Legislative Fiscal Division Budget Analysis, Volume 5.

The Reclamation and Development Grants Program (RDGP) is designed to fund projects that:
“..indemnify the people of the state for the effects of mineral development on public resources and that meet other crucial state needs serving the public interest and the total environment of the citizens of Montana” (90-2-1102, MCA).

As provided in statute, projects approved in the RDGP are intended to:

- Repair, reclaim, and mitigate environmental damage to public resources from non-renewable resource extraction
- Develop and ensure the quality of public resources for the benefit of all Montana citizens

The RDGP is administered by DNRC, which solicits, evaluates, and ranks applications on a biennial basis. Those eligible to apply for grants include state and local governments, political subdivisions, and tribal governments. Applications are evaluated according to specific criteria related to:

- Public benefit
- Need and urgency
- Appropriateness of technical design
- Financial feasibility
- Project management/organization

DNRC forwards a list of recommendations to the executive, who reviews the list and submits funding recommendations to the legislature for appropriation. No grant may exceed \$300,000.

EXECUTIVE RECOMMENDATION

Figure 14 shows a priority listing of the RDGP grants recommended by the executive for the 2011 biennium. DNRC received 29 applications requesting total grants of \$7.8 million. The RDGP recommends a list of 25 projects at a cost of \$6.7 million for the 2011 biennium. Of the 25 recommended projects, the DNRC estimates funding will be available for 19 projects, at a cost of \$5.0 million. In accordance with 90-2-1113, MCA, priority consideration is given to the Montana Board of Oil and Gas Conservation for \$600,000 in grants (projects ranked 1 and 2) and to any government entity for abandoned mine reclamation projects for \$800,000 in grants (actual authorization of \$900,000 for projects ranked 8, 11, and 15) over the biennium. The remainder, approximately \$3.5 million, is recommended for other reclamation and development projects. Project grants are matched by non-RDGP funds from a variety of state, federal, private, and local sources. An additional appropriation of \$800,000 is proposed to fund project planning grants.

Reclamation and Development Grants (RDGP) 2011 Biennium				
Rank	Sponsor/Title	Grant Requested	Grant Recommended	Cumulative Total
1	Montana Board of Oil and Gas 2009 Northern District Orphaned Well Plug & Abandonment & Site Restoration	\$300,000	\$300,000	\$300,000
2	Montana Board of Oil and Gas 2009 Southern District Orphaned Well Plug & Abandonment & Site Restoration	300,000	300,000	600,000
3	MT DNRC-Trust Land Management Division Reliance Refinery	300,000	300,000	900,000
4	* City of Shelby Shelby Refinery	300,000	300,000	1,200,000
5	* Missoula County St. Louis Creek Mine Reclamation	300,000	300,000	1,500,000
6	MT - Department of Environmental Quality Spring Meadow Lake Reclamation Project	300,000	300,000	1,800,000
7	* Cascade County Commission County Shops Remediation of Wood Treatment Preservatives	300,000	300,000	2,100,000
8	MT - Department of Environmental Quality McLaren Tailings Reclamation Project	300,000	300,000	2,400,000
9	* City of Lewistown** Reclamation of Berg Lumber Site	220,590	300,000	2,700,000
10	* Town of Ryegate Former Ryegate Conoco	259,200	259,200	2,959,200
11	MT - Department of Environmental Quality Emery Reclamation Project	300,000	300,000	3,259,200
12	* Park County Fleshman Creek Urban Restoration Project	300,000	300,000	3,559,200
13	* Butte-Silver Bow City-County Government Butte Mining District-Reclamation and Protection Project	300,000	300,000	3,859,200
14	* Missoula County Ninemile Creek Mining District Reclamation	200,800	200,800	4,060,000
15	MT - Department of Environmental Quality Beal Mountain Mine: Waste Rock Dump Soil Cover	300,000	300,000	4,360,000
16	* Lewis & Clark Conservation District York Gulch Old Amber Mine Reclamation Project	83,207	83,207	4,443,207
17	* Ruby Valley Conservation District Big Hole Cooperative Ditch Improvement Project	239,658	239,658	4,682,865
18	MT DNRC-Water Resources Division** Monitoring Coal-Bed Methane Development Effects on Surface Water Quality of the Tongue & Powder River	300,000	195,000	4,877,865
19	Montana Public Service Commission** Geologic Evaluation of Potential Sites for Compressed Air Energy Storage in Montana	293,460	135,000	5,012,865
Projects below this line are recommended only with available funding				
20	Flathead Basin Commission Flathead Lake Mapping Project	294,977	294,977	5,307,842
21	Jefferson County Ground-Water Quality Assessment with Emphasis on Radionuclides	300,000	300,000	5,607,842
22	Meagher County Conservation District Hydrologic Framework & Water Budget of the Upper Smith River Watershed, Meagher County	300,000	300,000	5,907,842
23	Custer County Conservation District** Yellowstone River Riparian Restoration Project	299,926	177,881	6,085,723
Sub-Total:		6,391,818	6,085,723	

Figure 14 (continued on next page)

Reclamation and Development Grants (RDGP) 2011 Biennium				
Rank	Sponsor/Title	Grant Requested	Grant Recommended	Cumulative Total
	Balance:	6,391,818	6,085,723	
24	Cascade County Commission Sustainable Water Supplies from the Madison Aquifer, Central Montana	290,817	286,792	6,372,515
25	Butte-Silver Bow City-County Government Irrigation Demonstration Project for Butte Acidic Mine Waters-On- Site Treatment & Resource Recovery	289,607	289,607	6,662,122
Projects below this line are not recommended for funding				
26	Carter County Conservation District Ground-Water Monitoring Near a Proposed in Situ Uranium Mine in	295,407	0	6,662,122
27	MT - Department of Environmental Quality Systematic Statewide Reconnaissance of Occurrence & Effects of	300,000	0	6,662,122
28	Flathead County Flathead Regional Wastewater Management Group (FUNDED BY	89,983	0	6,662,122
29	Montana Bureau of Mines and Geology Assessment of Deep Coals in Eastern Montana-Potential Targets for	159,784	0	6,662,122
Total R&D Grants Requested/Recommended		<u>\$7,817,416</u>	<u>\$6,662,122</u>	
* Indicates project planning grant recipients				

Figure 14 (continued from previous page)

**LFD
COMMENT**

New Funding Account: Funding for both the RRGL program and the RDGP program was revised with the passage of HB 116 in the 2007 regular session. HB 116 repealed 85-1-604, MCA and 90-2-1104, MCA, which established the state special revenue account that funded the two grant programs. The legislation replaced the state special revenue accounts with one joint account, statutorily required by 15-38-302, MCA. The new account will be used to fund several natural resource programs including the renewable resource grant program, the reclamation and development grant program, the irrigation grant program, the water projects private grant program, and various natural resource project requests.

FUNDING: NATURAL RESOURCE PROJECTS ACCOUNT

The natural resource projects account funds appropriations for natural resource grants authorized by the legislature in the RRGL and the RDGP, as well as various other natural resource programs. The account receives the income from the following sources:

- o Interest income of the resource indemnity trust fund as provided in and subject to the conditions of 15-38-202, MCA (\$3.5 million each fiscal year for the purpose of making grants)
- o Resource indemnity and ground water assessment tax under provisions of 15-38-106, MCA (50% of the remaining proceeds, after appropriations for CIRCLA debt service, and \$366,000 to the groundwater assessment account, for the purpose of making grants)
- o Oil and gas production tax as provided in 15-36-331, MCA (1.45% of oil and natural gas production taxes remaining after the distributions pursuant to subsections (2) and (3), increases to 2.16% in July, 2011)
- o Excess coal severance tax proceeds allocated by 85-1-603, MCA to the renewable resource loan debt service fund (above debt service requirements as provided in and subject to the conditions of 85-1-619, MCA)

As shown in Figure 15, the natural resource project account will have a beginning fund balance of \$2.4 million in the 2011 biennium. This beginning fund balance is primarily the result of greater than anticipated revenues from the oil and natural gas tax. Revenues for the biennium are expected to be \$12.0 million.

Appropriations from the natural resource projects account are authorized in Title 15, Chapter 38, MCA. The new statute states, "Appropriations may be made from the natural resources projects state special revenue account for

grants and loans for designated projects and the activities authorized in 85-1-602 and 90-2-1102", the RRGL and RDGP programs. In the 2011 biennium, the executive budget recommends total appropriations of \$6.3 for RRGL program \$5.8 million for the RDGP program from the natural resource projects account. The resulting ending fund balance is estimated to be \$2.2 million.

Natural Resource Project Account Fund Balance Projection 2011 Biennium	
Estimated Beginning Fund Balance (7/1/2009)	\$2,384,300
Revenue Projections ¹	
Resource Indemnity Trust Interest	\$7,000,000
RIGWA Tax	1,640,844
Oil and Natural Gas Tax	3,298,265
Excess Coal Tax Proceeds	0
Loan Re-payment	500
Administrative Fees	30,000
2011 Biennium Revenues	\$11,969,609
HB 6 Appropriations ²	
Emergency Grants	(\$100,000)
Project Planning Grants	(800,000)
Irrigation Development Grants	(300,000)
Water Project Private Grants	(50,000)
Proposed RRGL Grants	(5,071,578)
Total RRGL Appropriations	(\$6,321,578)
HB 7 Appropriations ³	
Project Planning	(\$800,000)
Reclamation and Development Grants	(5,012,865)
Total RDGP Appropriations	(\$5,812,865)
Estimated Ending Fund Balance (6/30/2011)	\$2,219,466
¹ RTIC recommendations	
² Executive grant proposal, HB 6	
³ Executive grant proposal, HB 7	

Figure 15

**LFD
COMMENT**

2011 Biennium Beginning Fund Balance: The natural resource projects account is expected to have a significant beginning balance, \$2.4 million, for the 2011 biennium. The beginning balance primarily results from larger than anticipated deposits of oil and natural gas taxes, deposited in the account in the 2009 biennium.

The 60th Legislature chose to fund all RRGL grants recommended for the 2009 biennium. However, the program lacked sufficient funds for the entire list of recommended projects. Consequently, the legislature funded \$2.2 million of RRGL local government grants with a grant from the Treasure State Endowment Program (TSEP). The grant to the RRGL created an unexpected grant cost to the TSEP, and in order to provide the \$2.2 million grant, the program will be required to cover the costs with a loan from the Board of Investments. The loan will create long-term future costs that will need to be repaid with future TSEP interest earnings.

The FY 2007-2008 interim Legislative Finance Committee (LFC) appointed a workgroup to analyze issues related to the potential TSEP loan. In relation to the TSEP funding issue, the workgroup made one recommendation to the LFC, which stated that the 2011 beginning fund balance expected in the natural resource projects fund is recommended to be used to reduce the TSEP grant to the RRGL program. The LFC agreed with the recommendation and included it in the LFC recommendations to the House Appropriations Committee and the Senate Finance and Claims Committee. The Long-Range Planning Subcommittee may wish to discuss using the 2011 beginning fund balance in the natural resource projects fund to reduce the TSEP grant to the RRGL program.

CULTURAL AND AESTHETIC GRANT PROGRAM

PROGRAM DESCRIPTION

The Cultural and Aesthetic Grant Program, as provided in Title 22, Chapter 2, part 3, MCA, is administered by the Montana Arts Council (MAC). Investment earnings from a statutory trust, which receives coal severance tax revenues, fund the grant program.

By statute, the interest from the cultural trust is to be appropriated for protection of works of art in the State Capitol and other cultural and aesthetic (C&A) projects, 15-35-108, MCA.

Grant applications for cultural and aesthetic projects are submitted to the MAC on a biennial basis. Eligible applicants include the state of Montana and regional, county, city, town, or Indian tribal governments. A 16-member Cultural and Aesthetic Projects Advisory Committee, with eight members appointed by the Montana Arts Council and eight appointed by the Montana

Historical Society, reviews each application. The committee prioritizes the requests and makes funding recommendations to the legislature as part of the executive budget. All grants require legislative approval in accordance with 22-2-306 through 309, MCA.

Cultural and Aesthetic Grant Program Trust and Appropriation Statistics by Biennia							
	Bien	Cultural Trust Balance ¹	Trust Earnings	Percent Change	Total Appropriated - Recommended	General Fund Appropriated for Grants	Projects Funded
A	1993	\$6,863,579	\$1,274,749		\$1,551,323		88
A	1995	7,296,373	990,551	-22.29%	1,706,735		93
A	1997	3,845,925	1,086,283	9.66%	857,926		77
A	1999	3,852,202	592,803	-45.43%	1,489,453		79
A	2001	4,257,671	540,097	-8.89%	634,939	\$600,000	76
A	2003	4,454,456	619,486	14.70%	705,425	532,575 ²	74
A	2005	4,907,330	644,017	3.96%	659,000	499,150	81
A	2007	8,787,534	962,739	49.49%	1,371,020	100,275	84
F	2009	10,848,527	1,218,000	26.51%	1,148,033		82
F	2011	11,442,527	1,321,000	8.46%	1,268,756 ³		92
¹ Biennium End							
² \$198,575 of general fund support replaced with lodging facility tax in FY 2003							
³ Executive proposal							

¹ Biennium End

² \$198,575 of general fund support replaced with lodging facility tax in FY 2003

³ Executive proposal

Figure 16

Figure 16 provides an historic perspective of the Cultural and Aesthetic Grant Program. As mentioned above, the trust provides interest earnings to fund the C&A program. Currently, the balance of the trust is approaching \$10.8 million and is expected to grow to \$11.4 million by the end of the 2011 biennium. As seen in the table, the fund balance was significantly reduced when the trust corpus was used to fund the purchase of Virginia and Nevada Cities. In the 2007 and 2009 biennia, the fund balance was replaced by transfers from the general fund, with trust deposits of \$3.4 million and \$1.5 million, respectively. With the funding of 92 grants in the 2011 biennium, there has only been one instance when more grants were funded. In the table above, projects are funded from the C&A account unless otherwise noted.

LFD COMMENT

Cushion: In past biennia, the C&A grant program has experienced interest earnings that have not kept pace with legislative appropriations. When revenue shortfalls occur, language contained in the C&A appropriation bill has provided for a reduction of grants, those awards greater than \$4,500, on a pro-rata basis. While some grant recipients are able to absorb the lower grant terms, in a number of cases program plans for the grant dollars are established and irreversible, causing financial harm to the recipient. To mitigate the negative effects of interest income shortfalls, the 60th Legislature allowed a “cushion” of 3.5 percent of all grant awards as an ending fund balance in the C&A grants fund. The 61st Long-Range Planning Subcommittee may wish to consider providing a “cushion” or ending fund balance in the C&A grants fund (02009).

EXECUTIVE RECOMMENDATION

The executive recommendation for Cultural and Aesthetic grants will be introduced in the C&A bill, typically designated HB 9. The first C&A priority recommended for funding is a \$30,000 appropriation to the Montana Historical Society for the care and conservation of capitol complex artwork, in accordance with 2-17-805, MCA.

The second priority is 92 C&A grant awards totaling \$809,400. The recommended awards are listed in Figure 17 in priority order within four categories, which include Special Projects less than \$4,500, Special Projects greater than \$4,500, Operational Support Projects, and Capital Expenditure Projects. In the 2011 biennium there are no projects recommended in the fifth, "Challenge Grant", category.

Cultural and Aesthetic Grants (C&A)						
2011 Biennium						
Grant Rank	Grant Number	Applicant		Grant Requested	Grant Recommended	Cummulative Total
Special Project < \$4500						
1	1406	Upper Swan Valley Historical Soc	Operational Support: Hiring a Coordinator	\$4,400	\$3,500	\$3,500
2	1407	Yellowstone Ballet Company	Pinocchio Ballet	4,500	4,500	8,000
3	1405	Signatures from Big Sky	Signatures from Big Sky	4,500	4,500	12,500
4	1404	Sanders County Hist Soc/USFS Region 1	The Big Blow Up Commemorative	4,500	4,500	17,000
5	1402	Miles City Speakers Bureau	Annual Season of Speakers	4,000	4,000	21,000
6	1403	Montana Storytelling Roundup, Inc.	Montana Storytelling Roundup, Inc.	4,500	4,500	25,500
7	1401	Granite Co Muscum & Cultural Ctr	Windows and Operating Expenses	4,500	2,000	27,500
8	1400	Council for the Arts, Lincoln	Arts and Education	2,500	1,800	29,300
Total Special Projects < \$4500				\$33,400	\$29,300	
Special Project > \$4500						
SSO1	1432	Montana Alliance for Arts Ed	Professional Development in Arts Education	\$8,566	\$5,000	34,300
1	1418	Glacier National Park	Walking Tour of the Belton Historic District	4,923	4,900	39,200
2	1424	Humanities Montana	Speakers Bureau	75,000	13,900	53,100
3	1430	Missoula Art Museum	Montana Triennial Project	27,000	12,000	65,100
4	1440	Russell Museum	C.M. Russell Museum Educational Programming	60,000	13,900	79,000
5	1414	CoMotion Dance	CoMotion Performances in Montana	17,477	6,000	85,000
6	1408	Alpine Artisans, Inc	Expding Cult Tour:S-S-Blackfoot Cultural Arts Corridor	16,400	7,300	92,300
7	1416	Fort Peck Fine Arts Council	Fort Peck Performing Arts Project	40,000	11,000	103,300
8	1411	Butte Silver Bow Public Archives	Document Processing Project	36,000	14,000	117,300
9	1436	Museum of the Rockies	The Great Masters: Goya and da Vinci	30,000	10,000	127,300
10	1421	Headwaters Dance Co	Montana Suite Tour	25,000	10,000	137,300
11	1410	Butte Citizens Pres & Revitalization	Butte Citiz for Preserv & Revitaliz	21,000	8,400	145,700
12	1426	KUFM Montana Public Radio	The Write Question	23,976	10,000	155,700
13	1423	Hockaday Museum of Art	Bridges of Understanding	60,000	10,400	166,100
14	1427	Livingston Depot Foundation	"Sweat and Steel": exhibition and outreach program	24,000	5,000	171,100
15	1415	Emerson Cultural Center	Schools in the Gallery: Exhibits	21,270	8,400	179,500
16	1417	Friends of Museum of Plains Indian	FY10-11 Program Support	9,000	3,000	182,500
17	1425	International Choral Festival	Choir Outreach Tours	6,840	6,200	188,700
18	1412	Butte Silver Bow Public Library	Butte Digital Image Project	38,060	5,000	193,700
19	1433	Montana Historical Society	Barns of the Big Sky	45,127	10,400	204,100
20	1428	Mai Wah Society/ Museum	New Staff Support	22,341	6,000	210,100
21	1435	Montana Museum of Art & Culture	Fra Dana Biography	25,500	10,700	220,800
22	1437	Musikanten Montana	Montana Early Music Festival	16,000	2,000	222,800
23	1409	Big Sky Repertory Theatre	Staff Expansion: Development & Educational Outreach	24,368	10,700	233,500
24	1434	Montana Mandolin Society	Misson Vally Music History Project	8,000	2,000	235,500
25	1438	North Valley Music School	North Valley Music School Fundraising Staff Expansion	20,000	9,300	244,800
26	1413	Butte Symphony Assoc	Revitalization Through Strategic Planning	5,388	1,000	245,800
27	1419	Glacier Symphony & Chorale	Festival Amadeus	23,000	7,500	253,300
28	1420	Hamilton Players, Inc	Sustaining Cultural and Econ Health in Western MT	24,867	5,000	258,300
Projects below this line are not recommended for funding						
29	1442	Yellowstone Chamber Players	Chamber Music Concerts in Rural Communities	13,300	0	258,300
30	1441	U of M Western	TRADE WINDS Educational & Community Program	7,800	0	258,300
31	1443	Youth Arts in Action	Ballet Master Classes	19,160	0	258,300
32	1439	Powell County Museum & Arts Fndn	Montana Shakespeare in the Parks	1,350	0	258,300
33	1422	Helena Symp Orchestra & Chorale	Annual evening at the Opera	40,000	0	258,300
34	1431	Missoula Community Access TV	Missoula Cultural: Scene and Heard	12,000	0	258,300
35	1429	Mainstreet Uptown Butte, Inc.	National Folk Festival in Butte, MT 2009-2010	40,000	0	258,300
Total Special Projects > \$4500				\$892,713	\$229,000	

Figure 17
(continued on next page)

Cultural and Aesthetic Grants (C&A)						
2011 Biennium						
Grant Rank	Grant Number	Applicant	Grant Requested	Grant Recommended	Cummulative Total	
Balance:					\$258,300	
Operational Support						
SSO-1	1467	Montana Arts	Operational Support	\$12,000	\$9,000	267,300
SSO-2	1475	Museums Assoc of Montana	Operational Support	20,000	12,500	279,800
SSO-3	1468	Montana Dance Arts Association	Operational Support	13,500	9,000	288,800
SSO-4	1469	Montana Performing Arts Consortium	Operational Support	39,000	15,000	303,800
SSO-5	1472	MT Assoc of Symph Orchestras (MASO)	Operational Support	27,400	12,500	316,300
SSO-6	1473	Museum & Art Gallery Director's Assoc	Operational Support	30,000	12,000	328,300
SSO-7	1470	Montana Preservation Alliance	Operational Support	40,000	12,000	340,300
1	1483	Shakespeare in the Parks	Operational Support	40,000	10,400	350,700
2	1448	Big Horn Arts & Crafts Assoc	Operational Support	20,000	13,500	364,200
3	1488	Western Heritage Center	Operational Support	40,000	10,400	374,600
4	1460	Holter Museum of Art	Holter Museum of Art Education Prog	60,000	15,000	389,600
5	1462	MCT, Inc	Putting MT Youth Center Stage by Putting ON Stage	40,000	12,000	401,600
6	1444	Alberta Bair Theater	Operational Support	25,000	11,100	412,700
7	1447	Beaverhead Co Museum	Operational Support	20,000	12,000	424,700
8	1445	Archie Bray Foundation	Moving Toward Sustainability - Operating Support	50,000	10,400	435,100
9	1446	Art Mobile of Montana	Operational Costs for Art Mobile of Montana	30,000	13,300	448,400
10	1449	Billings Symphony Society	BSO&C Operational Support	25,000	15,000	463,400
11	1492	Yellowstone Art Museum	Art as a Nexus for Growth	90,000	13,900	477,300
12	1458	Great Falls Symphony	Education and Outreach	20,000	10,000	487,300
13	1457	Grandstreet Theatre	Focus on Youth	36,500	9,000	496,300
14	1461	Intermountain Opera Assoc	Operational Support	20,000	7,500	503,800
15	1482	Schoolhouse History & Art Center	Operational Support	70,912	20,000	523,800
16	1459	Helena Presents/Myrna Loy Center	Operational Support	32,000	12,000	535,800
17	1455	Custer County Art Center	"Avenues to Education - Through the Arts"	32,000	15,000	550,800
18	1485	Sunburst Community Foundation	Arts Director Operational Support	18,310	8,000	558,800
19	1478	Pondera Arts Council	Operational Support	20,000	5,900	564,700
20	1480	Rimrock Opera Company	Building Capacity	21,000	5,900	570,600
21	1453	Carbon Co Historical Society	Operational Support	25,000	13,300	583,900
22	1479	Pondera Historical Association	Operational Support	25,000	8,000	591,900
23	1466	Montana Ag Center & Museum	Operational Support	24,000	9,000	600,900
24	1456	District 7 HRDC Growth Thru Art	Growth Thru Art	30,000	13,300	614,200
25	1487	VSA Arts of Montana	Cultural Access for People with Disabilities	13,050	8,000	622,200
26	1491	Writer's Voice (Billings YMCA)	Literature for all Montanans	31,000	13,700	635,900
27	1481	Rocky Mountain Ballet Theater	Operational Support	33,000	7,000	642,900
28	1477	Paris Gibson Sq Museum of Art	Operational Support	60,420	13,900	656,800
29	1450	Bozeman Symphony Society	Community Outreach Program	20,000	9,000	665,800
30	1452	Carbon Co Arts Guild & Depot	Staff Support	28,800	9,600	675,400
31	1465	MonDak Historical & Art Society	Op Support / HistoricalPreservation / Programming	30,940	10,300	685,700
32	1464	Missoula Cultural Council	Operational Support: Technology and Education	8,000	3,000	688,700
33	1463	Mission Valley Friends of the Arts	Part-time Administrative Director	6,000	2,000	690,700
34	1451	Butte Center for the Perf Arts	Butte Center for the Performing Arts	30,000	10,000	700,700
35	1486	Vigilante Theatre Company	Montana Touring Support and Community Outreach	15,000	6,000	706,700
36	1454	Copper Village Museum & Arts Cntr	Operational Support	28,505	9,500	716,200
37	1474	Museum of Beartooths/Stillwater Hist Soc	Operational Support	20,000	10,000	726,200
38	1484	Southwest MT Arts Council	Operational Support	30,459	10,000	736,200
39	1490	World Museum of Mining	Operational Support	25,000	11,100	747,300
40	1489	Whitefish Theatre Company	Whitefish Theatre Co.: Center Stage 30 Years	30,000	10,000	757,300
Projects below this line are not recommended for funding						
41	1471	Montana Repertory Theatre	Taking Big Theatre Across The Big Sky	20,000	0	757,300
42	1476	NW MT Hist Soc Museum -Central School	Operational Support	36,000	0	757,300
Total Operational Support				\$1,462,796	\$499,000	

Figure 17
(continued on next page)

Cultural and Aesthetic Grants (C&A)						
2011 Biennium						
Grant Rank	Grant Number	Applicant	Grant Requested	Grant Recommended	Cummulative Total	
Balance:					\$757,300	
Capital Expenditure						
1	1503	Sanders County	High Bridge Renovation, Thompson Falls	\$25,000	\$11,100	\$768,400
2	1501	Polson-Flathead Historical Museum	Museum Renovation & Installation of Environ Controls	25,000	10,000	778,400
3	1494	Billings Preservation Society	Condition Assess & Repair-Moss Mansion	54,926	12,000	790,400
4	1495	City of Great Falls/Mansfield Center	Theater Sound System Renovation	7,500	5,000	795,400
5	1497	City of Shelby	Champions Park	45,000	5,000	800,400
6	1499	Mineral Co. Museum & Historical Society	Public Access & Heritage Research Center	4,500	2,000	802,400
7	1502	Ravalli County Museum	Preserving a Multi-Media History of Western Montana	14,150	5,000	807,400
8	1498	Clay Arts Guild of Helena	High Fire Kiln	4,500	2,000	809,400
Projects below this line are not recommended for funding						
9	1496	City of Helena Civic Center	Civic Center Project Safe Access Improvements	35,250	0	809,400
10	1500	Old Trail Museum	Old Trail Museum: Grizzly Traps and History	4,500	0	809,400
11	1493	Arts Council of Big Sky	Big Sky Performing Arts Center Amphitheater	31,125	0	809,400
Total Capital Expenditure			\$251,451	\$52,100		
Total C&A Grants Requested/Recommended			\$2,640,360	\$809,400	\$809,400	

Figure 17
(continued from previous page)

FUNDING

The cultural trust receives a statutory 0.63 percent of coal severance tax revenues, but that proportion has changed numerous times since the corpus reduction of 1997. To compensate for the lost interest earnings related to the use of the cultural trust corpus to purchase Virginia and Nevada Cities, the 1997 Legislature allocated 0.87 percent of coal severance tax revenue to the C&A project account for the 1999 biennium only. In FY 2000, the coal severance tax allocation to the cultural trust was returned to 0.63 percent. In FY 2002 two actions affecting the grant program were taken to increase revenues to the general fund. First, the C&A project grants were reduced by \$25,000. Next, the distribution from the coal severance tax was diverted out of the cultural trust and into the general fund. The elimination of the flow caused a reduction in interest available for FY 2003. Additionally, during the special session of August 2002, general fund support of \$198,575 in FY 2003 was replaced with lodging facility use tax revenue. In the 2011 biennium, the interest income from the cultural trust represents the only statutory funding for the C&A grant program.

Figure 18 shows the projected fund balance for the 2011 biennium. Based on the assumptions adopted by the Revenue and Transportation Interim Committee (RTIC), interest earnings of the cultural trust will total \$1.3 million for the 2011 biennium. The executive budget includes \$429,785 for administrative expenses and the folklife program (as appropriated in the general appropriations act), \$30,000 for a statutorily required appropriation for capitol complex works of art, and grant funding proposals of \$809,400. Using the RTIC revenue estimates and the executive budget proposals, the ending fund balance is projected to be \$123,225. This balance represents 9.3 percent of biennial revenues, which should be efficient in the event of a revenue shortfall.

Cultural & Aesthetic Grant Fund (0209) Fund Balance Projection, 2011 Biennium	
Estimated Beginning Fund Balance (7/1/2009)	\$71,410
Revenue Projections ¹	
FY 2010 Investment Earnings	\$650,000
FY 2011 Investment Earnings	<u>671,000</u>
2011 Biennium Revenues	\$1,321,000
Proposed Expenditures	
Administration and Folklife ²	(\$429,785)
Capitol Complex Works of Art	(30,000)
Grants ³	<u>(809,400)</u>
Total Expenditures	(\$1,269,185)
Estimated Ending Fund Balance (6/30/2011)	<u>\$123,225</u>
¹ RTIC recommendations	
² Executive general appropriations act proposal	
³ Executive grant proposal	

Figure 18

QUALITY SCHOOL FACILITIES PROGRAM

NEW PROGRAM PROPOSAL

The executive budget includes a proposal for a new program, the Quality School Facilities Grants Program (QSFP), which is intended to help the K-12 school districts to address facility deficiencies and improve technological access. The program will facilitate work at K-12 school facilities. The facility work will be in part based on the recommendations provided in the K-12 facility condition and needs assessment and energy audit, a study required in HB 1 of the December 2005 Legislative Special Session.

EXECUTIVE RECOMMENDATION

NOTE: The Legislative Fiscal Division analysis of the QSFP budget has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for the QSFP program reduced funds flowing into the Quality School Facility Fund by \$8.5 million, in the 2011 biennium. The reduction represents a 13.2 percent decrease in total funds for the 2011 biennium.

LFD ISSUE

Lack of Information: The executive budget contained very little detail for this new program proposal. The executive recommendation included a single paragraph, which provided a general overview of the purpose and vague references to the proposed funding. After meeting with the executive, some detail was obtained in order to provide this minimal level of analysis for the new proposal.

The executive budget proposes creating a grant program, similar to the Treasure State Endowment Program (TSEP) and administering the program through the Department of Commerce (DOC). As in the TSEP, the future QSFP would rank grants, using a yet to be determined set of conditions and criteria. Grants would be available through an application process, which would be made available to all of the 421 school districts across the state.

The program would be structured to meet several goals, which include:

- Enhance the quality of life and protect the health, safety, and welfare of Montana's public school students
- Ensure the successful delivery of an educational system that meets the accreditation standards provided in 20-7-111
- Extend the life of Montana's existing public school facilities
- Promote energy conservation and reduction
- Integrate technology into Montana's education framework to support student educational needs for the future
- Promote fiscally responsibility considering both the short-term and long-term needs of the public school district, the local community, and the state

Some of the conditions recommended in ranking the grant applications might include:

- Health and safety condition of the facility
- Energy efficiency of the facility
- Current state of IT infrastructure
- Financial need of the district
- Financial feasibility of the project

Grants would be distributed to the successful applicants on a reimbursement basis.

LFD ISSUE

No Project Recommendations: The executive budget did not include a plan for QSFP grant issuance in the 2011 biennium. Consequently, the Legislative Fiscal Division has no information to determine how much of K-12 facility needs will be addressed with the available and proposed funding in the 2011 biennium.

**LFD
COMMENT**

K-12 Facility Condition and Needs Assessment and Energy Audit: During the 2007-2008 interim, the Department of Architecture and Engineering Division (A&E) of the Department of Administration (DOA) completed a study titled, the "K-12 Facility Condition and Needs Assessment and Energy Audit" study, and presented the results to the interim Legislative Finance Committee (LFC).

The K-12 study provided data on school facility condition by district. The study was commissioned to identify areas of fatigue and failure and provide allowance recommendations that reflect a replacement in-kind. Two of the 421 districts had no deficiencies at the time of the assessment, and the assessment found three vacant facilities.

According to the results of the study, there is a total need in K-12 facilities of \$359.1 million of improvements. The study classified need in seven categories which included (dollars in millions):

- \$0 - Life Safety—an immediate threat to life safety or building integrity
- \$155.9 - Damage/Wear Out-broken, vandalized, worn out to inoperable degree, difficult to service, lacking integrity
- \$4.4 - Code Compliance-systems observed to be out of code compliance and not grandfathered
- \$54.8 - Environmental-failures/conditions affecting indoor environment, including building shell and indoor space condition
- \$87.2 - Energy-improvements on components or systems for energy efficiency
- \$0 - Aesthetics-items aged, dated, or worn (excluded because of subjectivity concerns)
- \$56.7 - Other-not in compliance with code but grandfathered (will need to be addressed in the future, but are not generally considered current obligations or deficiencies)

The budget estimates included in the K-12 study for repair of a given facility system are taken directly from the facility condition database, developed in the K-12 study, and uses a square foot cost analysis to determine the estimated cost. Facility improvement costs were provided through the study as a representative measure of project costs. The cost is provided in 2007 dollars, and the information needed to determine the cost changes driven by construction inflation/deflation for 2008 is not yet available.

Quality School Facilities Program: When the results of the K-12 Facility Condition and Needs Assessment and Energy Audit study were heard, the LFC was also informed of monies, set aside by the 60th Legislature for K-12 facility condition improvements. Upon hearing of the executive's concept for a TSEP-like K-12 facility grant program, the LFC recommended that this program be brought before the Long-Range Planning Subcommittee (LRP).

The LRP will need to determine if program development should be tasked to them as opposed to one of the larger committees. There will be a number of components for consideration in the program development. Should the LRP decide to accept the challenge of developing the program, a few of the many issues to consider would be:

- Program Requisites – Will the program rely on local contractors to undertake the projects and will local contractors be required to adhere to the state contract requirements
- Who would best administer the QSFP – The DOC has expertise in the administration of grant programs while the DOA has expertise in building and IT programs
- Who offers the least cost – Least cost administration would allow more funds for projects
- How much local (district) match would be required
- What are the proper program parameters – The program will require parameters related to the application and ranking processes
- Matching Funds – Should school districts be required to provide a match to grant funding

FUNDING

In the May 2007 Special Session, the legislature passed SB 2, which created a new school facility improvement account, in 20-9-516, MCA. The account was established to provide money to schools to implement the recommendations of the school facility condition and needs assessment and energy audit mentioned above. The monies deposited in the account may be used for major deferred maintenance, improving energy efficiency in school facilities, or critical infrastructure in school districts. The account has only one source of income at this time. SB 2 provided a short-term source of income for the purposes of the account, royalties from mineral development on state lands. By the end of FY 2010, the royalty income is estimated to be \$52.4 million. The school facility improvement account will not receive future flows of royalty income.

As shown in Figure 19, the executive budget recommends the addition of several new sources of income for the purpose of school facility improvements, which include the revenue from “streambed rents” (proposed to begin in FY 2012 under the executive budget revisions of Dec. 15, 2008), revenue from timber harvests on state lands in excess of 18 million board feet, and the revenue from new income generating lands. Streambed rents are revenue derived from energy companies who are expected to pay rental fees for the use of streambeds in their operational activities. For more information regarding these two flows of income to the school facility improvement account, refer to the “LFD Issue” on page E-44 of the Legislative Fiscal Division Budget Analysis, Volume 7.

The revenue from timber harvests on state lands in excess of 18 million board feet has traditionally been used to purchase technology for school districts. Revenue flows have varied between almost nothing to around \$2 million per year. The timber money is currently distributed as the district general fund BASE budget is distributed. Assuming that legislation requesting the funding changes is passed and approved, total revenues from all sources (including the unexpended flow of mineral royalties in the 2009 biennium) in the 2011 biennium is estimated to be \$56.0 million.

The proposal would fund both the administrative and the project costs of the program. The administrative costs are expected to be \$800,000 for the biennium, and would be appropriated in the QSFP bill. In future biennia, the appropriation would be made in the general appropriation act (HB 2). The executive budget proposal did not recommend projects, and as a result, there is \$55.2 million available for projects in the 2011 biennium.

School Facilities Improvement Account (02218)			
Fund Balance Projection 2011 Biennium			
	FY 2010	FY 2011	Total
Estimated Beginning Fund Balance (7/1/2009)			\$38,740,857
Revenue Projections ¹			
Common School Royalty Distributions	\$13,702,992	\$0	\$13,702,992
Proposed New Funding ²			
Streambed Rents ³	\$0	\$0	
Timber Revenues ¹	2,721,914	799,554	
Total Proposed New Funding	\$2,721,914	\$799,554	\$3,521,468
Total 2011 Biennium Proposed Revenues			\$55,965,317
Proposed Expenditures ²			
Administration - DOC	(\$400,000)	(\$400,000)	(\$800,000)
Total Funds Available For Projects			\$55,165,317
¹ Based on RTIC estimates			
² Based on executive budget proposal			
³ Eliminated in the Dec. 15, 2008 executive budget revisions			

Figure 19

LFD ISSUE

K-12 Improvements: Given the results of the K-12 Facility Condition and Needs Assessment, with an estimate of total facility improvements needs of \$395.1 million, and in consideration program revenues proposed in the executive budget (from streambed rents and timber revenues), the initial projection of funds would address about 14 percent of the total K-12 facility needs. Future revenues, without consideration to growth in program revenues, are estimated to be approximately \$5.0 million per year or \$10 million each biennium. These estimates suggest that it would take over 33 biennia (66 years) for the proposed revenues to meet the K-12 facility needs, before consideration of construction inflation/deflation.

New QSFP Funding Proposal

The executive budget includes a proposal for the purchase of income-generating real property for the QSFP. This proposal would create a new source of revenue for public school facilities.

NOTE: The Legislative Fiscal Division analysis of the new QSFP funding proposal has been coordinated with the December 15, 2008 executive budget revisions. The executive budget for the QSFP income generating land proposal was reduced by \$4.0 million, or 16 percent. The reduced amount of bond authority being requested will also reduce the associated debt service. The estimated amount of debt service for the QSFP land purchase is reduced by approximately 48.1 percent in the 2011 biennium.

The proposal, which is expected to be introduced in HB 14, would request \$21 million in bond proceeds for the acquisition of new lands. The proposed bond issue would be for a general obligation bond, with debt service of \$0.4 million in FY 2010 and \$0.9 million in FY 2011 that is paid by statutory appropriation from the state general fund. The debt service projections assume a 5.1 percent rate of interest on bonds with a 20 year life. The land purchase is expected to be made in two parts, with the first purchase occurring in FY 2010.

The executive budget did not contain any detail related to what land would be purchased for the provision of funding for the QSFP, and consequently, there is no way to determine what revenues would be provided from the land in the 2011 biennium.

LFD COMMENT

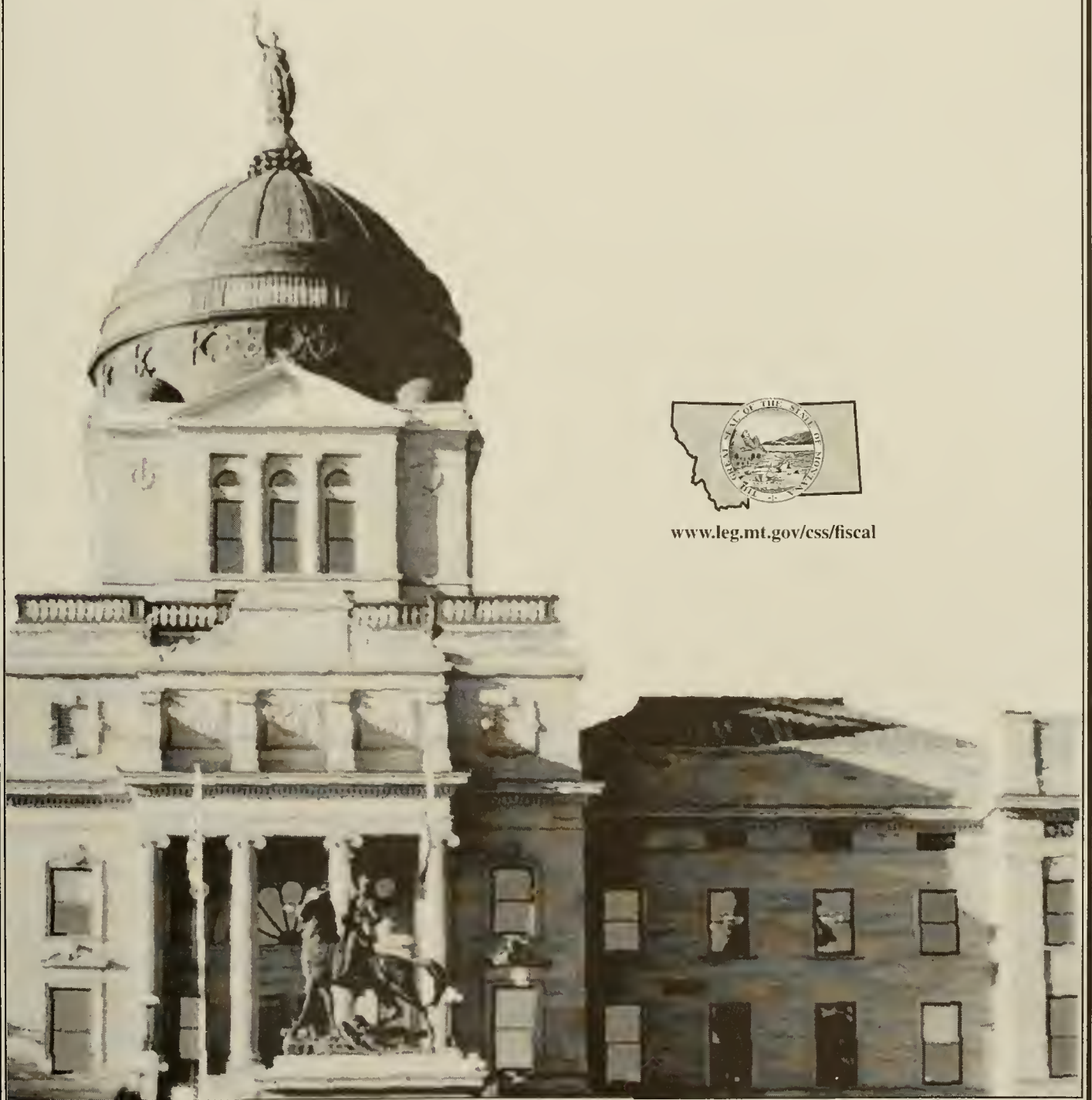
Land Purchases: The Long-Range Planning Subcommittee may wish to request information from the executive concerning the HB 14 land acquisition. The executive budget did not contain any information related to the purchase of land for the purpose of providing funds for the QSFP. Without this information, there is no way to determine what the future revenue stream of the acquisitions might be.

LFD COMMENT

Development of Program Funding: When developing the new funding methodology for the QSFP funding, the Long-Range Planning Subcommittee may wish to discuss the following topics:

- The elimination of current statutory distributions of streambed and timber revenues
- Will there need to be re-appropriation authority for this program, similar to 17-7-212
- Might it be best to delay appropriations of timber revenues because of the uncertainty of collections
- Given the uncertainty of the revenue streams recommended for the program, would it be advisable to develop a reporting method to track project progress and funding and to avoid the accumulation of unused appropriation authority

Glossary / Acronyms / Index



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Glossary

A number of terms are used extensively in budgeting and appropriations. The most common terms, which are used throughout the budget analysis and in other fiscal materials, are listed and defined below.

Appropriations – An authorization by law for the expenditure of funds or to acquire obligations. Types of appropriations are listed below.

Biennial – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium.

Budget amendment – See “Budget Amendment” below.

Continuing – An appropriation that continues beyond one biennium.

Language – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount.

Line Item – An appropriation made for a specific purpose and which cannot be used for any other purpose. Line item appropriations highlight certain appropriations and ensure that they can be separately tracked on the state accounting system.

One-time – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.

Restricted – An appropriation designated for a specific purpose or function.

Statutory – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references are listed in 17-7-502, MCA.

Temporary – An appropriation authorized by the legislature in the general appropriations act or in a “cat and dog” bill that is valid only for the biennium.

Appropriation Transfers (also see “Supplemental Appropriation”) – The transfer of funds appropriated for the second year of the biennium to the first if the Governor or other approving authority determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

Approving Authority – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

- The Governor or his/her designated representative for executive branch agencies
- The Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies
- The Speaker of the House of Representatives for the House;
- The President of the Senate for the Senate
- The appropriate standing legislative committees or designated representative for the legislative branch divisions
- The Board of Regents of Higher Education or their designated representative for the university system

Average Daily Population (ADP) – The population measure used to calculate population in the Montana correctional system. ADP is equivalent to one inmate incarcerated for one year.

Average Number Belonging (ANB) – The enrollment measure used for K-12 BASE aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

Base – The level of funding authorized by the previous legislature.

Base Budget – The resources needed for the operation of state government that provide for expenses of an ongoing and non-extraordinary nature in the current biennium.

Benefits – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services, such as Medicaid benefits. Personal services benefits for state employees are included in the personal services expenditure category.

Biennial Appropriation – An appropriation that can be expended in either or both years of the biennium.

Biennium – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

Budget Amendments – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support for the present or future.

Cat and Dog Appropriations – One-time appropriations made in bills other than the general appropriations act.

Debt Service – The payment on outstanding bonds.

Decision Package – Separate, specific adjustments to the base budget. Decision packages can be either present law adjustments or new proposals.

Earmarked Revenue – Funds from a specific source that can be spent only for designated activities.

Enterprise Funds – A fund used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

Federal Special Revenue – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

Fiduciary Funds – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

Fiscal Note - An estimate, prepared by the Office of Budget and Program Planning, of the probable revenues and costs that will be incurred as the result of a bill or joint resolution.

Fiscal Year (FY) aka State Fiscal Year (SFY) – A 12-month accounting period beginning July 1 and ending June 30. Fiscal year 2003 refers to the fiscal year ending June 30, 2003. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

Fixed Costs – Fees (fixed costs) charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services.).

FTE – Full-Time Equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

Fund – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

General Fund – Accounts for all governmental financial resources except those that must be accounted for in another fund.

General Fund Reversions – Unspent appropriated funds that are returned to the general fund at the close of the budget period.

Grants – An expenditure category used to account for the payment by a government entity to an individual or other entity who will perform a service.

HB 2 – The General Appropriations Act in which the legislature authorizes the funding for state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

Indirect Cost – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

Interim – The time between regular legislative sessions.

Internal Service Funds – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

IRIS - The Integrated Revenue Information System (IRIS) is an automated system to administer taxes that are the responsibility of the Department of Revenue to collect.

Local Assistance – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

MBARS – The Montana Budget Analysis and Reporting System, which provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS).

Mill – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each \$1,000 of assessed property value.

New Proposals – Requests (decision packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

Non-budgeted Expenditures – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

Operating Expenses – All operating expenditures that do not meet the personal services and capital outlay classification criteria. These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

Other Funds – Capital projects and fiduciary funds.

Capital projects fund – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds.

Fiduciary funds – Trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds.

Pay Plan – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position according to that position's grade and the market rate.

Personal Services – Expenditures for salaries, benefits, per diem, and other additions, such as overtime.

Personal Services Snapshot – The point in time at which personal services attributes are captured and from which the personal services budget is determined. The executive budget personal services costs are based on a "snapshot" of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

Present Law – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

Present Law Adjustments – Requests (decision packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

Program – A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

Proprietary Funds – Enterprise or internal service funds. Statute does not require that most proprietary funds be appropriated.

Enterprise funds – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.

Internal service funds – Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

Reporting Levels – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

SABHRS – The State Accounting, Budget, and Human Resource System that combines the state's accounting, budgeting, personnel, payroll, and asset management systems into one single system.

State Special Revenue – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

Supplemental Appropriation – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

Vacancy Savings – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year.

Acronyms

AES	Agricultural Experiment Station	LAD	Legislative Audit Division
ADP	Average Daily Population	LEPO	Legislative Environmental Policy Office
ANB	Average Number Belonging (K-12 education)	LFA	Legislative Fiscal Analyst
ARM	Administrative Rules of Montana	LFC	Legislative Finance Committee
BASE Aid	Base Amount for School Equity Aid	LFD	Legislative Fiscal Division
BPE	Board of Public Education	LRBP	Long Range Building Program
C&A	Cultural and Aesthetic (Trust)	LRP	Long Range Planning
CC	Community Colleges	LSD	Legislative Services Division
CES	Cooperative Extension Service	MAC	Montana Arts Council
CHE	Commissioner of Higher Education	MBARS	Montana Budgeting, Analysis, and Reporting System
CHIP	Children's Health Insurance Program (also SCHIP)	MBCC	Montana Board of Crime Control
CIO	Chief Information Officer	MBMG	Montana Bureau of Mines and Geology
COPP	Commissioner of Political Practices	MCA	Montana Code Annotated
COT	College of Technology, followed by campus designation	MCHA	Montana Comprehensive Health Association
CPI	Consumer Price Index	MDC	Montana Developmental Center
DEQ	Department of Environmental Quality	MDT	Montana Department of Transportation
DMA	Department of Military Affairs	MHP	Montana Highway Patrol
DNRC	Department of Natural Resources and Conservation	MHS	Montana Historical Society
DOA	Department of Administration	MSDB	Montana School for the Deaf and Blind
DOA	Department of Agriculture	MSF	Montana State Fund
DOC	Department of Commerce	MSL	Montana State Library
DOC	Department of Corrections	MSP	Montana State Prison
DOJ	Department of Justice	MSU	Montana State University, followed by campus designation i.e. MSU – Bozeman
DOLI	Department of Labor and Industry	MUS	Montana University System
DOR	Department of Revenue	NP	New Proposal
DP	Decision Package	OBPP	Office of Budget and Program Planning
DPHHS	Department of Public Health and Human Services	OCHE	Office of the Commissioner of Higher Education
FCES	Forestry and Conservation Experiment Station	OPI	Office of Public Instruction
FMAP	Federal Medical Assistance Participation rate (Medicaid)	PERS	Public Employees Retirement System
FSR	Federal Special Revenue	PL	Present Law
FSTS	Fire Services Training School	PSC	Public Service Commission
FTE	Full-Time Equivalent	RIGWA	Resource Indemnity and Groundwater Assessment Tax
FWP	Department of Fish, Wildlife, and Parks	RIT	Resource Indemnity Trust
FFY	Federal Fiscal Year	SABHRS	Statewide Accounting, Budgeting, and Human Resources System
FY	Fiscal Year	SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
FYE	Fiscal Year End	SAO	State Auditor's Office
GAAP	Generally Accepted Accounting Principles	SF&C	Senate Finance and Claims Committee
GF	General Fund	SOS	Secretary of State
GSL	Guaranteed Student Loan	SSR	State Special Revenue
GTB	Guaranteed Tax Base	TANF	Temporary Assistance for Needy Families
HAC	House Appropriations Committee	TRS	Teachers' Retirement System
HSRA	Highways Special Revenue Account	TSEP	Treasure State Endowment Program
I&I	Interest and Income	UM	University of Montana, followed by campus designation i.e. UM – Missoula
IRIS	Integrated Revenue Information System		
IT	Information Technology		
ITSD	Information Technology Services Division		

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